

Champions of Growth

HSBC Inaugural India Investor Conference

HSBC is hosting an India Investor Conference in Mumbai on 7-8 February 2011

More than 60 corporates are attending, represented by top management

This report includes profiles of the presenting companies

By Roopesh Patel and the India Research Team

Disclosures and Disclaimer This report must be read with the disclosures and analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

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Stocks under coverage

Axis Bank, AXSB IN, OW

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Target price (INR) Share price (INR) Potential total return (%)	1,900 1,326 44	Index Bloomberg	Bombay SE Sensitive Index AXSB IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance Absolute Relative (%)	1M 0.3 5.1	3M -9.4 -4.6	12M 28.5 13.1
			Market cap (USDm) Free float (%)	11,865 57

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Business description

- ▶ Axis Bank was the first of the new private banks to have begun operations in 1994, after the Government of India allowed new private banks to be established. The bank has a network of 1,120 branches and 5,303 ATMs; this is one of the largest ATM networks in the country.
- ▶ The bank operates in four segments, namely treasury, retail banking, corporate/wholesale banking and other banking business. In November 2010, Axis announced that it is acquiring ENAM Securities. This would add equities and investment banking to its existing portfolio.

Key points

- ▶ Axis is one of the fastest growing private sector banks in India, and its key strength is its strong deposit franchise, with a CASA mix of c42%. This will stand the bank in good stead in a rising interest rate environment.
- ▶ Low cost of funds, strong margins, improving asset quality and steady growth are likely to be key stock drivers.

Valuation and risks

- ▶ We value Axis using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). Axis's PE and PB valuations, at 13x and 2.5x, respectively, lie between those of its peer private banks and PSU banks. We believe it warrants a re-rating closer to its private peers given its high earnings growth and rising ROA and ROE. We therefore set target PE and PB multiples at 19x and 2.6x, respectively. We expect FY11-13e EPS CAGR at 23% and forecast ROE to improve to 21% from 19%.
- ▶ Downside risks: Slower than expected loan growth and margins.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	89,503	110,603	136,467	166,108	PE* (x)	20.6	16.4	13.4	10.8
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	52,406	63,293	78,157	95,876	EV/sales (x)	na	na	na	na
Net income	25,145	32,738	40,208	49,853	P/BV (x)	3.3	2.9	2.5	2.1
EPS (INR)	64.3	80.8	99.2	123.0					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Axis Bank

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary(INR m)				
Net Interest Income	50,045	66,956	82,743	100,652
Non-interest Income	39,458	43,646	53,724	65,455
Net fees/commission	25,652	29,599	36,984	46,046
Trading profits	7,142	5,771	6,459	7,049
Other	6,664	8,276	10,281	12,360
Total Operating income	89,503	110,603	136,467	166,108
Operating expense	37,097	47,310	58,310	70,231
Staff costs	12,558	16,268	20,275	24,087
Other oper expenses	24,539	31,042	38,035	46,145
PPOP	52,406	63,293	78,157	95,876
Provisions	13,851	13,029	16,419	19,344
Bad debt	13,570	11,359	14,467	17,050
Other	281	1,669	1,952	2,294
Other non-oper profit(loss)				
HSBC PBT	38,554	50,264	61,738	76,532
Exceptionals	-	-	-	-
Profit-before tax	38,554	50,264	61,738	76,532
Taxation	13,409	17,526	21,529	26,679
PAT	25,145	32,738	40,208	49,853
Minorities + pref dividend	-	-	-	-
Attributable profit	25,145	32,738	40,208	49,853
HSBC attributable profit	25,145	32,738	40,208	49,853

Balance sheet summary (INRm)

Total assets	1,806,479	2,262,268	2,799,753	3,499,769
Customer loans (net)	1,043,431	1,315,038	1,643,705	2,039,988
Investment assets	559,748	678,748	856,554	1,089,461
Other assets	203,299	268,481	299,494	370,320
Total Liabilities	1,646,032	2,076,474	2,582,988	3,241,928
Customer deposits	1,413,002	1,785,962	2,260,762	2,900,088
Debt securities issued	171,696	210,000	220,000	215,000
Other liabilities	61,335	80,512	102,226	126,840
Total capital	160,446	185,794	216,764	257,841
Ordinary equity	160,446	185,794	216,764	257,841
Minorities + other capital				
IEA (avg)	1,585,313	1,971,827	2,459,564	3,068,672
IBL (avg)	1,481,055	1,824,889	2,283,977	2,854,902

Capital adequacy (%)

RWA (INRm)	1,411,698	1,779,165	2,223,831	2,825,957
Core tier 1	11.2%	10.3%	9.6%	8.9%
Total tier 1	11.2%	10.3%	9.6%	8.9%
Total capital	15.8%	11.1%	10.5%	10.0%

Per share data (INR)

EPS reported (fully diluted)	64.3	80.8	99.2	123.0
HSBC EPS (fully diluted)	64.3	80.8	99.2	123.0
DPS	12.0	16.0	20.0	19.0
NAV	396.0	458.6	535.0	636.4
NAV (including goodwill)	396.0	458.6	535.0	636.4

ROAA deconstruction

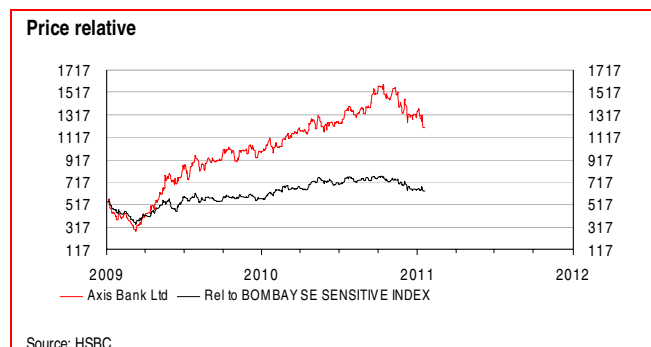
Net interest income	3.05	3.29	3.27	3.20
Total interest income	7.09	7.77	8.08	8.24
Total interest expense	4.04	4.48	4.81	5.05
Net fees & commission	1.56	1.45	1.46	1.46
Other income	0.84	0.69	0.66	0.62
Operating income	5.45	5.44	5.39	5.27
Operating expenses	2.26	2.33	2.30	2.23
Staff costs	0.76	0.80	0.80	0.76
Other oper exp	1.49	1.53	1.50	1.47
PPOP	3.19	3.11	3.09	3.04
Provisions	0.84	0.64	0.65	0.61
Non-op items	-	-	-	-
PBT	2.35	2.47	2.44	2.43
Taxation	0.82	0.86	0.85	0.85
PAT	1.53	1.61	1.59	1.58

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (YoY %)				
Net interest income	35.8	33.8	23.6	21.6
Non-interest income	36.2	10.6	23.1	21.8
Operating expense	29.8	27.5	23.3	20.4
PPOP	40.7	20.8	23.5	22.7
Provisions	47.4	(5.9)	26.0	17.8
PBT	38.4	30.4	22.8	24.0
PAT	38.5	30.2	22.8	24.0
Customer loans (net)	27.9	26.0	25.0	24.1
Total Assets	22.3	25.2	23.8	25.0
RWA	28.6	26.0	25.0	27.1
Customer deposits	20.4	26.4	26.6	28.3
Ratios (%)				
NIM	3.16	3.40	3.36	3.28
Gross yield	7.34	8.02	8.31	8.46
Cost of funds	4.48	5.00	5.33	5.57
Spread	2.86	3.02	2.98	2.89
NPL/gross loans	1.1	1.1	1.0	1.0
Credit cost	1.5	1.0	1.0	0.9
Coverage	68.2	70.8	70.9	70.3
NPL/RWA	0.9	0.9	0.9	0.8
Provisions/RWA	0.6	0.7	0.6	0.6
Net write-off/RWA	-	-	-	-
NPL/NTE	8.2	9.0	9.1	9.1
Net loans/total assets	57.8	58.1	58.7	58.3
RWA/total assets	78.1	78.6	79.4	80.7
Loans/deposits	73.8	73.6	72.7	70.3
Avg IEA/avg total assets	96.6	96.9	97.2	97.4
Avg IBL/avg total liab	98.0	98.0	98.0	98.0
Cost/income	41.4	42.8	42.7	42.3
Non-int income/total income	44.1	39.5	39.4	39.4
ROAA (including goodwill)	1.53	1.61	1.59	1.58
ROAE (including goodwill)	19.15	18.91	19.98	21.01
Return on avg tier 1	19.4	19.2	20.3	21.4
Leverage (x)	12.5	11.8	12.6	13.3

Valuation data

PE (diluted EPS)	20.6	16.4	13.4	10.8
P/PPOP	10.3	8.5	6.9	5.6
P/BVPS	3.3	2.9	2.5	2.1
P/NTE	3.3	2.9	2.5	2.1
Dividend yield (x)	0.9	1.2	1.5	1.4
P/Deposit	0.38	0.30	0.24	0.19
P/Asset	0.30	0.24	0.19	0.2

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

Bank of Baroda, BOB IN, OW

Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	1110 874 30	Index Bloomberg	Bombay SE Sensitive Index BOB IN
Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Performance Absolute Relative (%)	1M -2.0 2.7	3M -11.7 -7.1	12M 59.6 40.5
			Market cap (USDm) Free float (%)	6,984 57

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ BOB is one of India's leading public sector banks, with c5.5% share in system loans and deposits. The bank has a wide network of 3,343 branches, including 82 overseas branches. BOB plans to open 300 more branches by end-FY11. It has close to 1,500 ATMs.
- ▶ BOB provides the traditional forms of banking services, including CDs, credit card services and a variety of car loans, in addition to gold banking and a range of insurance services. The group also owns IBU International Finance Ltd., an international banking company in Hong Kong.

Key points

- ▶ Unlike most large PSU banks, a strong top management has enabled BoB to deliver healthy bottom line growth, supported by a higher than system loan growth, stable CASA ratio and margins and healthy asset quality.
- ▶ We expect stable performance to continue on most operating parameters without much pressure on margins. Asset quality is also likely to remain stable. We forecast an earnings CAGR of 20% over FY11-13e, driven by 20-25% balance sheet growth, firm margins and lower provisions.

Valuation and risks

- ▶ BOB has historically traded at a premium to peers (ex-SBI). After 25% underperformance of the market since Nov-10, it now trades at just a marginal premium to peers which we expect to sustain given its superior profitability.
- ▶ The stock is currently trading at 6.6x FY12e PE and 1.5x FY12e PB. We expect it to re-rate to 7.7x PE catalysed by improving system liquidity after Apr-11. We value BOB using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). We set our 12-month target price at INR1,110.
- ▶ Downside risks: Worse than expected slippages, economic slowdown.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	87,458	113,189	135,296	160,399	PE* (x)	10.4	7.9	6.6	5.5
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	49,353	69,277	83,470	100,287	EV/sales (x)	na	na	na	na
Net income	30,583	40,614	48,360	58,496	P/BV (x)	2.3	1.9	1.5	1.2
EPS (INR)	83.7	111.1	132.3	160.0					

*Based on HSBC EPS (diluted). Source: HSBC

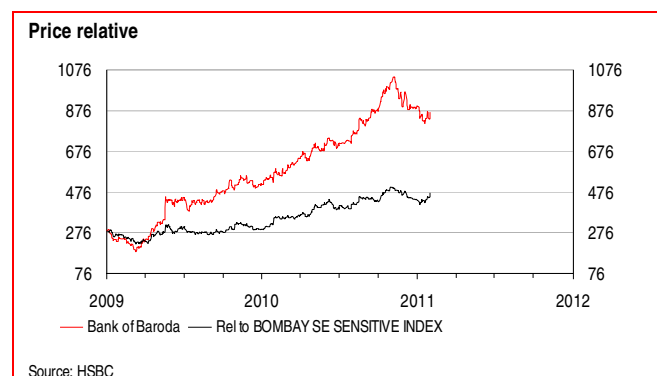
Financials & valuation: Bank of Baroda

Neutral

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary (INRm)				
Net Interest Income	59,395	84,994	101,335	122,524
Non-interest Income	28,064	28,195	33,962	37,876
Net fees/commission	8,973	9,893	12,362	13,921
Trading profits	7,524	4,532	5,468	5,868
Other	11,566	13,770	16,131	18,086
Total Operating income	87,458	113,189	135,296	160,399
Operating expense	38,106	43,912	51,826	60,113
Staff costs	23,509	27,072	32,515	38,063
Other oper expenses	14,597	16,840	19,312	22,050
PPOP	49,353	69,277	83,470	100,287
Provisions	6,972	9,987	12,353	14,264
Bad debt	9,007	7,992	9,233	10,685
Other	(2,035)	1,994	3,120	3,579
Other non-oper profit(loss)				
HSBC PBT	42,381	59,290	71,117	86,023
Exceptionals	-	-	-	-
Profit-before tax	42,381	59,290	71,117	86,023
Taxation	11,797	18,677	22,757	27,527
PAT	30,583	40,614	48,360	58,496
Minorities + pref dividend	-	-	-	-
Attributable profit	30,583	40,614	48,360	58,496
HSBC attributable profit	30,583	40,614	48,360	58,496
Balance sheet summary (INRm)				
Total assets	2,783,167	3,407,582	4,164,509	4,964,064
Customer loans (net)	1,750,353	2,206,894	2,737,912	3,314,869
Investment assets	611,824	778,235	909,842	1,053,315
Other assets	420,990	422,453	516,754	595,880
Total Liabilities	2,632,103	3,223,602	3,941,151	4,692,474
Customer deposits	2,410,443	2,989,577	3,685,359	4,418,063
Debt securities issued	133,501	143,449	154,143	166,501
Other liabilities	88,160	90,576	101,648	107,910
Total capital	151,064	183,980	223,358	271,590
Ordinary equity	151,064	183,980	223,358	271,590
Minorities + other capital				
IEA (avg)	2,440,608	3,007,902	3,693,435	4,463,420
IBL (avg)	2,311,038	2,855,426	3,508,035	4,238,682
Capital adequacy (%)				
RWA (INRm)	1,560,914	1,816,406	2,358,412	3,007,489
Core tier 1	8.2%	8.1%	7.9%	7.8%
Total tier 1	9.2%	8.9%	8.5%	8.3%
Total capital	14.4%	13.3%	11.9%	11.0%
Per share data (INR)				
EPS reported (fully diluted)	83.7	111.1	132.3	160.0
HSBC EPS (fully diluted)	83.7	111.1	132.3	160.0
DPS	17.5	18.0	21.0	24.0
NAV	377.1	467.2	574.9	706.9
NAV (including goodwill)	377.1	467.2	574.9	706.9
ROAA deconstruction				
Net interest income	2.35	2.75	2.68	2.68
Total interest income	6.61	6.96	7.06	7.14
Total interest expense	4.26	4.22	4.39	4.46
Net fees & commission	0.36	0.32	0.33	0.31
Other income	0.76	0.59	0.57	0.52
Operating income	3.46	3.66	3.57	3.51
Operating expenses	1.51	1.42	1.37	1.32
Staff costs	0.93	0.87	0.86	0.83
Other oper exp	0.58	0.54	0.51	0.48
PPOP	1.95	2.24	2.20	2.20
Provisions	0.28	0.32	0.33	0.31
Non-op items	-	-	-	-
PBT	1.68	1.92	1.88	1.88
Taxation	0.47	0.60	0.60	0.60
PAT	1.21	1.31	1.28	1.28

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (y-o-y %)				
Net interest income	15.9	43.1	19.2	20.9
Non-interest income	1.8	0.5	20.5	11.5
Operating expense	6.6	15.2	18.0	16.0
PPOP	14.6	40.4	20.5	20.1
Provisions	(27.5)	43.2	23.7	15.5
PBT	26.8	39.9	19.9	21.0
PAT	37.3	32.8	19.1	21.0
Customer loans (net)	22.2	26.1	24.1	21.1
Total Assets	22.8	22.4	22.2	19.2
RWA	19.8	16.4	29.8	27.5
Customer deposits	25.3	24.0	23.3	19.9
Ratios (%)				
NIM	2.43	2.83	2.74	2.75
Gross yield	6.84	7.17	7.24	7.30
Cost of funds	4.66	4.57	4.73	4.80
Spread	2.19	2.59	2.51	2.50
NPL/gross loans	1.36	1.30	1.21	1.18
Credit cost	0.6	0.4	0.4	0.4
Coverage	74.5	72.8	74.1	70.8
NPL/RWA	1.5	1.6	1.4	1.3
Provisions/RWA	1.1	1.2	1.1	0.9
Net write-off/RWA	-	-	-	-
NPL/NTE	15.9	15.7	15.0	14.5
Net loans/total assets	62.9	64.8	65.7	66.8
RWA/total assets	56.1	53.3	56.6	60.6
Loans/deposits	72.6	73.8	74.3	75.0
Avg IEA/avg total assets	96.7	97.2	97.6	97.8
Avg IBL/avg total liab	96.9	97.5	97.9	98.2
Cost/income	43.6	38.8	38.3	37.5
Non-int income/total income	32.1	24.9	25.1	23.6
ROAA (including goodwill)	1.21	1.31	1.28	1.28
ROAE (including goodwill)	24.3	26.3	25.4	25.0
Return on avg tier 1	24.1	26.6	26.7	26.0
Leverage (x)	20.0	20.1	19.9	19.5
Valuation data				
PE (diluted EPS)	10.4	7.9	6.6	5.5
P/PPOP	6.5	4.6	3.8	3.2
P/BVPS	2.3	1.9	1.5	1.2
P/NTE	2.3	1.9	1.5	1.2
Dividend yield (x)	2.0	2.1	2.4	2.7
P/Deposit	0.1	0.1	0.1	0.1
P/Asset	0.1	0.1	0.1	0.1

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

Bank of India, BOI IN, OW

Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	546 468 20	Index Bloomberg	Bombay SE Sensitive Index BOI IN
Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Performance Absolute Relative (%)	1M 5.6 10.7	3M -12.9 -8.3	12M 19.4 5.1
			Market cap (USDm) Free float (%)	5,372 57

Note: Price at close of 24 January 2011. Source: HSBC
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ BoI is among the larger PSU banks with the 5th largest market share of loans (4.6%) and deposits (6.2%). With over 3,200 branches, including 22 foreign branches, it has the 4th largest branch network and c5% share of the PSU branches.
- ▶ The bank operates in three business segments – treasury, wholesale banking and retail banking. It specialises in services for corporate and medium-sized businesses, in addition to upmarket retail customers. The bank also offers products such as mutual funds, venture capital, depository services, bullion trading and credit cards.
- ▶ The bank has a life insurance joint venture with Union Bank of India and Daiichi Mutual Life which commenced operations in February 2009. BoI has 51%, Dai-ichi Life 26% and Union Bank 23%.

Key points

- ▶ In Q3 FY11, BoI's loan and deposit growth was in line with the industry (both 23% y-o-y). Margins expanded steeply to 3.09%, unlike peers. Asset quality surprised positively with slippages slowing down meaningfully to 0.9%.
- ▶ We expect BoI's asset growth to continue to be in line with the industry. However, the current high margins are likely to see a partial decline as deposit repricing catches up by 1Q FY12. On the asset quality front, the worst of the pain of the last five quarters appears to be over, so slippages are likely to moderate to 1-1.3%.

Valuation and risks

- ▶ After five sluggish quarters, 3Q earnings warrant taking another look at the stock, given the 20-30% underperformance to the Sensex and Bankex since the peak in Oct 10. We value BoI at 6.7x and 1.4x 12-month rolling PE and PB, respectively – similar to its FY12 trading multiples. We expect FY11-13e EPS CAGR at 25% with the ROE likely to improve to 22% from 20% and ROA at 1%. We value BoI using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). We set our 12-month target price at INR546.
- ▶ Downside risks: Worse asset quality, higher credit costs.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	83,726	101,172	118,542	140,514	PE* (x)	14.1	8.7	6.9	5.6
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	47,048	58,884	69,455	83,548	EV/sales (x)	na	na	na	na
Net income	17,411	28,143	35,461	44,008	P/BV (x)	1.9	1.6	1.4	1.1
EPS (INR)	33.1	53.5	67.4	83.7					

*Based on HSBC EPS (diluted) Source: HSBC

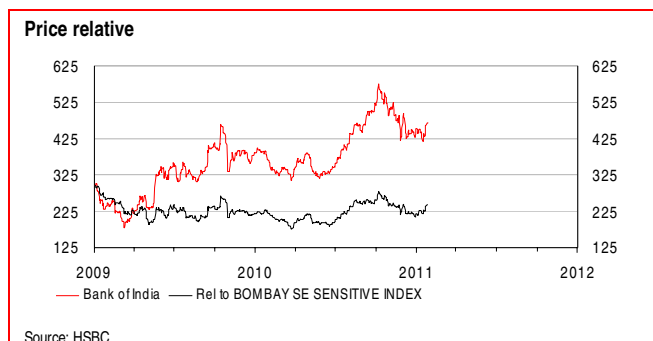
Financials & valuation: Bank of India

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary(INRm)				
Net Interest Income	57,560	75,915	88,840	105,894
Non-interest Income	26,166	25,257	29,702	34,620
Net fees/commission	14,683	17,011	20,488	24,334
Trading profits	5,936	2,374	2,731	3,140
Other	5,547	5,872	6,483	7,146
Total Operating income	83,726	101,172	118,542	140,514
Operating expense	36,678	42,288	49,087	56,966
Staff costs	22,961	26,412	30,486	35,184
Other oper expenses	13,717	15,876	18,600	21,782
PPOP	47,048	58,884	69,455	83,548
Provisions	22,109	19,797	19,509	20,679
Bad debt	17,855	10,597	13,009	16,179
Other	4,254	9,200	6,500	4,500
Other non-oper profit(loss)				
HSBC PBT	24,938	39,087	49,946	62,869
Exceptionals	-	-	-	-
Profit-before tax	24,938	39,087	49,946	62,869
Taxation	7,528	10,944	14,484	18,861
PAT	17,411	28,143	35,461	44,008
Minorities + pref dividend	-	-	-	-
Attributable profit	17,411	28,143	35,461	44,008
HSBC attributable profit	17,411	28,143	35,461	44,008
Balance sheet summary (INRm)				
Total assets	2,749,665	3,212,113	3,876,821	4,625,354
Customer loans (net)	1,684,907	2,022,647	2,469,144	2,964,186
Investment assets	670,802	740,883	880,740	1,038,523
Other assets	393,956	448,583	526,937	622,644
Total Liabilities	2,567,253	3,001,004	3,630,890	4,337,251
Customer deposits	2,297,619	2,721,826	3,313,002	3,982,817
Borrowings	183,888	193,082	212,390	233,629
Other liabilities	85,746	86,096	105,498	120,804
Total capital	128,014	150,926	179,927	216,243
Ordinary equity	128,014	150,926	179,927	216,243
Minorities + other capital				
IEA (avg)	2,413,595	2,880,046	3,429,216	4,123,361
IBL (avg)	2,248,982	2,698,208	3,220,150	3,870,919
Capital adequacy (%)				
RWA (INRm)	1,618,570	1,979,661	2,429,412	3,015,124
Core tier 1	7.6%	7.4%	7.2%	7.0%
Total tier 1	8.7%	8.3%	8.0%	7.7%
Total capital	13.6%	13.4%	13.1%	12.6%
Per share data (INR)				
EPS reported (fully diluted)	33.1	53.5	67.4	83.7
HSBC EPS (fully diluted)	33.1	53.5	67.4	83.7
DPS	8.2	8.5	10.5	12.5
NAV	243.4	287.0	342.1	411.2
NAV (including goodwill)	243.4	287.0	342.1	411.2
ROAA deconstruction				
Net interest income	2.30	2.55	2.51	2.49
Total interest income	7.14	7.17	7.36	7.45
Total interest expense	4.84	4.62	4.85	4.96
Net fees & commission	0.59	0.57	0.58	0.57
Other income	0.46	0.28	0.26	0.24
Operating income	3.35	3.39	3.34	3.31
Operating expenses	1.47	1.42	1.38	1.34
Staff costs	0.92	0.89	0.86	0.83
Other oper exp	0.55	0.53	0.52	0.51
PPOP	1.88	1.98	1.96	1.97
Provisions	0.88	0.66	0.55	0.49
Non-op items	-	-	-	-
PBT	1.00	1.31	1.41	1.48
Taxation	0.30	0.37	0.41	0.44
PAT	0.70	0.94	1.00	1.04

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (y-o-y %)				
Net interest income	4.7	31.9	17.0	19.2
Non-interest income	(14.3)	(3.5)	17.6	16.6
Operating expense	18.5	15.3	16.1	16.1
PPOP	(13.8)	25.2	18.0	20.3
Provisions	71.1	(10.5)	(1.5)	6.0
PBT	(40.1)	56.7	27.8	25.9
PAT	(42.1)	61.6	26.0	24.1
Customer loans (net)	17.9	20.0	22.1	20.0
Total Assets	21.9	16.8	20.7	19.3
RWA	15.7	22.3	22.7	24.1
Customer deposits	21.1	18.5	21.7	20.2
Ratios (%)				
NIM	2.38	2.64	2.59	2.57
Gross yield	7.41	7.42	7.60	7.68
Cost of funds	5.39	5.11	5.34	5.44
Spread	2.02	2.31	2.27	2.23
NPL/gross loans	2.9	2.3	2.2	2.0
Credit cost	1.15	0.57	0.58	0.60
Coverage	45.0	66.0	68.0	70.0
NPL/RWA	3.0	2.4	2.2	2.0
Provisions/RWA	1.4	1.6	1.5	1.4
Net write-off/RWA	-	-	-	-
NPL/NTE	38.1	31.5	30.0	28.3
Net loans/total assets	61.3	63.0	63.7	64.1
RWA/total assets	58.9	61.6	62.7	65.2
Loans/deposits	73.3	74.3	74.5	74.4
Avg IEA/avg total assets	96.5	96.6	96.7	97.0
Avg IBL/avg total liab	89.9	90.5	90.9	91.1
Cost/income	43.8	41.8	41.4	40.5
Non-int income/total income	31.3	25.0	25.1	24.6
ROAA (including goodwill)	0.70	0.94	1.00	1.04
ROAE (including goodwill)	14.2	20.2	21.4	22.2
Return on avg tier 1	13.3	18.9	20.3	21.2
Leverage (x)	20.4	21.4	21.4	21.5
Valuation data				
PE (diluted EPS)	14.1	8.7	6.9	5.6
P/PPOP	5.2	4.2	3.5	2.9
P/BVPS	1.9	1.6	1.4	1.1
P/NTE	1.9	1.6	1.4	1.1
Dividend yield (x)	1.7	1.8	2.2	2.7
P/Deposit	0.1	0.1	0.1	0.1
P/Asset	0.1	0.1	0.1	0.1

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

Bharti Airtel, BHARTI IN, N(V)

Rajiv Sharma* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1239 rajivsharma@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	370.00 333.10 11.1	Index Bloomberg	Bombay SE Sensitive Index BHARTI IN
Harbhajan Singh* Associate Bangalore	Performance Absolute Relative (%)	1M -4.4 0.2	3M -0.1 5.2	12M 3.4 -9.0
			Market cap (USDm) Free float (%)	27,766 32

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Bharti Airtel is the largest telecom operator in India, with a subscriber market share of c21% and a revenue market share of c32%. The company acquired Zain's African operations in 15 countries in 2010 for USD10.7bn.
- ▶ The company also runs one of the largest passive infrastructure operations in the world, through which it deploys, owns and manages passive infrastructure. The passive infrastructure business includes Indus Tower JV and Bharti Infratel Ltd.
- ▶ The company operates through four business segments: mobile, telemedia, enterprise and digital TV. The mobile business offers services in India, Sri Lanka, Bangladesh and 16 African countries and serves over 200m subscribers.

Key points

- ▶ Our Neutral (V) rating on Bharti Airtel is driven by its robust growth in minutes, possibilities of tariff consolidation and sector consolidation.
- ▶ Our estimates also factor in improved prospects in the African markets given better possibilities of tower-sharing, usage elasticity and tariff innovations.
- ▶ However, potential return is limited given fragmented industry structure, 3G (it initially will put pressure on costs) and further usage upside seem limited. Besides, MNP will likely lead to increased competition in the post-paid segment in the near term.

Valuation and risks

- ▶ We value the India business at INR403 using a mix of DCF (WACC 12%, CoE 12%, cost of debt 10.5%) and PE at 15x FY12e EPS. We value the Africa business at -INR33. Our target price is INR370, implying 16.3x FY12e EPS and 12.1x FY13e EPS. The stock is currently trading at 14.7x FY12e EPS and 7.2x FY12e EV/EBITDA.
- ▶ We expect EPS to increase 35% in FY12e and 34% in FY13e, driven by improvement in its African operations and a pick up in 3G data customers. The key upside risks are sector consolidation in India and the ability to monetize tower assets.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	418,472	596,739	687,055	787,152	PE* (x)	14.1	19.8	14.7	10.9
EBITDA	167,633	206,582	248,060	304,278	EV/EBITDA (x)	7.6	8.9	7.2	5.6
EBIT	104,801	102,901	138,229	180,479	EV/sales (x)	3.0	3.1	2.6	2.2
Net income	89,765	63,875	86,067	115,741	P/BV (x)	3.0	2.6	2.2	1.8
EPS (INR)	23.67	16.82	22.67	30.48					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Bharti Airtel

Neutral (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	418,472	596,739	687,055	787,152
EBITDA	167,633	206,582	248,060	304,278
Depreciation & amortisation	-62,832	-103,681	-109,831	-123,799
Operating profit/EBIT	104,801	102,901	138,229	180,479
Net interest	-181	-19,198	-26,653	-27,916
PBT	105,088	84,110	111,576	152,563
HSBC PBT	105,088	84,110	111,576	152,563
Taxation	-13,453	-19,915	-23,989	-34,327
Net profit	89,765	63,875	86,067	115,741
HSBC net profit	89,765	63,875	86,067	115,741

Cash flow summary (INRm)

Cash flow from operations	161,394	167,448	228,283	271,004
Capex	-141,535	-438,942	-154,808	-157,112
Cash flow from investment	-141,535	-438,942	-154,808	-157,112
Dividends	0	0	0	0
Change in net debt	-45,433	560,481	-46,823	-85,976
FCF equity	26,729	-288,779	48,343	88,471

Balance sheet summary (INRm)

Intangible fixed assets	59,890	635,397	627,592	619,788
Tangible fixed assets	482,629	607,607	660,388	701,507
Current assets	137,685	130,699	143,031	154,060
Cash & others	77,685	39,212	39,212	39,212
Total assets	710,940	1,434,182	1,491,489	1,535,833
Operating liabilities	161,817	285,640	303,703	318,282
Gross debt	101,898	623,906	577,083	491,107
Net debt	24,213	584,694	537,871	451,895
Shareholders funds	421,940	492,621	578,688	694,429
Invested capital	440,702	1,048,852	1,088,096	1,117,861

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	13.2	42.6	15.1	14.6
EBITDA	10.5	23.2	20.1	22.7
Operating profit	0.7	-1.8	34.3	30.6
PBT	12.9	-20.0	32.7	36.7
HSBC EPS	6.0	-28.9	34.7	34.5

Ratios (%)

Revenue/IC (x)	1.0	0.8	0.6	0.7
ROIC	21.3	10.3	10.1	12.8
ROE	24.7	14.0	16.1	18.2
ROA	14.5	7.4	7.5	9.3
EBITDA margin	40.1	34.6	36.1	38.7
Operating profit margin	25.0	17.2	20.1	22.9
EBITDA/net interest (x)	926.1	10.8	9.3	10.9
Net debt/equity	5.4	111.4	88.1	62.2
Net debt/EBITDA (x)	0.1	2.8	2.2	1.5
CF from operations/net debt	666.6	28.6	42.4	60.0

Per share data (INR)

EPS Rep (diluted)	23.67	16.82	22.67	30.48
HSBC EPS (diluted)	23.67	16.82	22.67	30.48
DPS	0.00	0.00	0.00	0.00
Book value	111.26	129.74	152.41	182.89

Valuation data

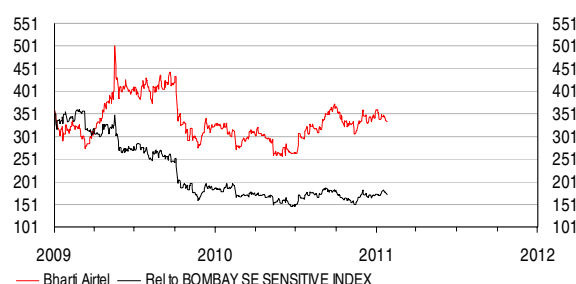
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	3.0	3.1	2.6	2.2
EV/EBITDA (x)	7.6	8.9	7.2	5.6
EV/IC (x)	2.9	1.7	1.6	1.5
PE* (x)	14.1	19.8	14.7	10.9
P/NAV (x)	3.0	2.6	2.2	1.8
FCF yield (%)	2.1	-23.1	3.9	7.1
Dividend yield (%)	0.0	0.0	0.0	0.0

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	333.10	Target price (INR)	370.00	Potent' l rtn (%)	11.1
Reuters (Equity)	BRTI.BO	Bloomberg (Equity)	BHARTI IN		
Market cap (USDm)	27,766	Market cap (INRm)	1,264,957		
Free float (%)	32	Enterprise value (INRm)	1,834,494		
Country	India	Sector	Wireless Telecoms		
Analyst	Rajiv Sharma	Contact	+9122 2268 1239		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Canara Bank, CBK IN, OW

Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Target price (INR) Share price (INR) Potential total return (%)	878 608 44	Index Bloomberg	Bombay SE Sensitive Index CBK IN
Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Performance Absolute Relative (%)	1M -6.8 -2.3	3M -16.9 -12.5	12M 55.9 37.3
			Market cap (USDm) Free float (%)	5,452 57

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to NYSE and/ or NASD regulations

Business description

- ▶ Canara Bank (CBK) is one of India's leading public sector banks, with c5% share in system loans and deposits. The bank has 3,057 branches. It has over 2,000 ATMs, one of the highest among nationalized banks, covering 732 centres.
- ▶ The bank provides a full range of banking services, including retail banking, commercial and personal banking, investment management, treasury & NRI services, cash management and assorted ATM facilities. In FY06, CBK signed MoUs for two JVs in insurance and asset management with international majors.

Key points

- ▶ Key drivers in Q3FY11 results were higher margins and substantially lower credit costs. Previously, discussions with new CMD, Mr S. Raman, had largely put to rest uncertainties surrounding asset quality. Mr Raman also guided for a higher CASA ratio and NIM above 3%, implying sustainable higher earnings growth.
- ▶ Going forward, we expect that the high mix of core deposits and pick-up in loan growth will support margins. Asset quality is unlikely to throw out any negative surprise, thus signalling healthy asset quality.

Valuation and risks

- ▶ Based on higher NIM and better asset quality expectations, we expect earnings to grow at a 23% CAGR over FY10-13e, with stable RoE and RoA at ~25% and ~1.4%, respectively. With NIM stable at 3% and gross NPLs below ~1.5% over FY11-13e, CBK's margins and asset quality would be on par with peers vs. historical underperformance, which should reduce its valuation discount going forward.
- ▶ We value CBK using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). Our target PE and PB multiples are 7x and 1.2x. Accordingly, we arrive at a 12-month target price of INR878.
- ▶ **Downside risks:** Higher slippages and lower margins may dampen earnings growth; management change in 2HFY13.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	85,384	104,434	123,247	144,271	PE* (x)	8.2	5.9	5.2	4.4
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	50,608	60,256	71,494	84,577	EV/sales (x)	na	na	na	na
Net income	30,214	41,656	47,988	55,987	P/BV (x)	2.0	1.5	1.2	1.0
EPS (INR)	73.7	101.6	117.0	136.6					

*Based on HSBC EPS (diluted) Source: HSBC

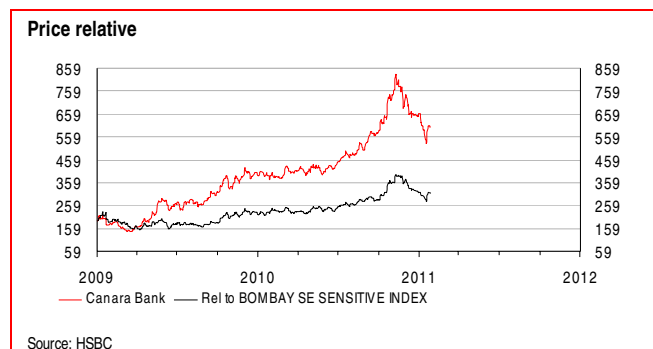
Financials & valuation: Canara Bank

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary (INRm)				
Net interest income	56,805	80,948	95,949	113,257
Non-interest income	28,579	23,501	27,414	31,214
Net fees/commission	7,239	8,011	9,434	10,822
Trading profits	9,767	4,219	5,602	6,604
Other	11,573	11,271	12,377	13,788
Total operating income	85,384	104,449	123,363	144,471
Operating expense	34,776	44,193	51,869	59,894
Staff costs	21,937	30,153	35,071	40,332
Other oper expenses	12,839	14,040	16,798	19,562
PPOP	50,608	60,256	71,494	84,577
Provisions	12,394	7,527	10,749	13,708
Bad debt	14,262	6,550	9,023	11,684
Other	(1,868)	977	1,725	2,024
Other non-oper profit (loss)				
HSBC PBT	38,214	52,729	60,745	70,869
Exceptionals	-	-	-	-
Profit-before tax	38,214	52,729	60,745	70,869
Taxation	8,000	11,073	12,756	14,883
PAT	30,214	41,656	47,988	55,987
Minorities + pref dividend	-	-	-	-
Attributable profit	30,214	41,656	47,988	55,987
HSBC attributable profit	30,214	41,656	47,988	55,987
Balance sheet summary (INRm)				
Total assets	2,647,411	3,124,941	3,735,214	4,454,975
Customer loans (net)	1,693,346	2,032,812	2,459,723	2,951,431
Investment assets	696,770	795,586	935,103	1,110,806
Other assets	257,295	296,544	340,388	392,739
Total liabilities	2,500,693	2,964,370	3,534,330	4,206,739
Customer deposits	2,346,514	2,797,363	3,333,197	4,007,827
Debt securities issued	84,406	98,295	114,963	134,965
Other liabilities	69,773	68,712	86,169	63,947
Total capital	146,718	160,571	200,884	248,237
Ordinary equity	146,718	160,571	200,884	248,237
Minorities + other capital				
IEA (avg)	2,342,588	2,807,298	3,346,149	4,004,602
IBL (avg)	2,232,173	2,675,886	3,186,396	3,811,903
Capital adequacy (%)				
RWA (INRm)	1,506,233	1,792,659	2,295,982	2,926,767
Core tier 1	8.5%	8.7%	8.5%	8.3%
Total tier 1	8.5%	8.7%	8.5%	8.3%
Total capital	13.4%	12.5%	11.5%	10.6%
Per share data (INR)				
EPS reported (fully diluted)	73.7	101.6	117.0	136.6
HSBC EPS (fully diluted)	73.7	101.6	117.0	136.6
DPS	10.0	13.5	16.0	18.0
NAV	305.8	391.6	490.0	605.5
NAV (including goodwill)	305.8	391.6	490.0	605.5
ROAA deconstruction				
Net interest income	2.35	2.80	2.80	2.77
Total interest income	7.74	8.00	8.26	8.33
Total interest expense	5.40	5.20	5.46	5.56
Net fees & commission	0.30	0.28	0.28	0.26
Other income	0.88	0.54	0.52	0.50
Operating income	3.53	3.62	3.60	3.53
Operating expenses	1.44	1.53	1.51	1.46
Staff costs	0.91	1.04	1.02	0.98
Other oper exp	0.53	0.49	0.49	0.48
PPOP	2.09	2.09	2.08	2.07
Provisions	0.51	0.26	0.31	0.33
Non-op items	-	-	-	-
PBT	1.58	1.83	1.77	1.73
Taxation	0.33	0.38	0.37	0.36
PAT	1.25	1.44	1.40	1.37

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (YoY %)				
Net interest income	20.4	42.5	18.5	18.0
Non-interest income	23.7	(17.8)	16.6	13.9
Operating expense	13.5	27.1	17.4	15.5
PPOP	27.7	19.1	18.6	18.3
Provisions	(10.9)	(39.3)	42.8	27.5
PBT	48.6	38.0	15.2	16.7
PAT	45.8	37.9	15.2	16.7
Customer loans (net)	22.5	20.0	21.0	20.0
Total assets	20.5	18.0	19.5	19.3
RWA	20.4	19.0	28.1	27.5
Customer deposits	25.6	19.2	19.2	20.2
Ratios (%)				
NIM	2.42	2.88	2.87	2.83
Gross yield	8.00	8.23	8.46	8.52
Cost of funds	5.86	5.61	5.88	5.98
Spread	2.15	2.62	2.59	2.54
NPL/gross loans	1.5	1.4	1.4	1.3
Credit cost	0.9	0.4	0.4	0.4
Coverage	30.5	29.7	30.9	32.3
NPL/RWA	1.7	1.6	1.5	1.4
Provisions/RWA	0.5	0.5	0.5	0.4
Net write-off/RWA	-	-	-	-
NPL/NTE	17.7	18.3	16.9	16.0
Net loans/total assets	64.0	65.1	65.9	66.3
RWA/total assets	56.9	57.4	61.5	65.7
Loans/deposits	72.2	72.7	73.8	73.6
Avg IEA/avg total assets	96.7	97.3	97.6	97.8
Avg IBL/avg total liab	97.6	97.9	98.1	98.5
Cost/income	40.7	42.3	42.0	41.5
Non-int income/total income	33.5	22.5	22.2	21.6
ROAA (including goodwill)	1.25	1.44	1.40	1.37
ROAE (including goodwill)	26.8	29.1	26.6	24.9
Return on avg tier 1	26.4	29.3	27.4	25.6
Leverage (x)	21.5	20.2	19.0	18.2
Valuation data				
PE (diluted EPS)	8.2	5.9	5.2	4.4
P/PPOP	4.9	4.1	3.5	2.9
P/BVPS	2.0	1.5	1.2	1.0
P/NTE	2.0	1.5	1.2	1.0
Dividend yield (x)	1.7	2.2	2.7	3.0
P/Deposit	0.11	0.09	0.07	0.06
P/Asset	0.09	0.08	0.07	0.06

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

CESC, CESC IN, OW

Arun Kumar* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1778 arun4kumar@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	475.00 323.50 46.8	Index Bloomberg	Bombay SE Sensitive Index CESC IN
Murtuza Zakiuddin* Associate Bangalore	Performance Absolute Relative (%)	1M -13.1 -8.9	3M -14.9 -10.4	12M -23.3 -32.5
			Market cap (USDm) Free float (%)	887 48

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ CESC, one of the major private distribution companies in India, serves 2.3m customers in Kolkata and adjoining areas. It is well integrated in that: a) it has its own generation capacity of 1.25GW; b) captive coal mining for a large part of its capacity.
- ▶ CESC is also involved in retail through its subsidiary Spencer's Retail, which it acquired in 2007. Spencer is a multi-format retailer with 207 stores across India, a trading area of 0.9m sq ft and annual turnover of INR10bn.

Key points

- ▶ **Steady regulated business:** CESC's power business in Kolkata earns steady returns both on distribution (ROE of 15%) as well as on its own generation (ROE of 14%). The business generates strong cash flow (cash flow margin of c30%) which is sufficient to fund its capacity expansion of 1.2GW under construction.
- ▶ **Expansion in generation capacity, key growth driver:** CESC is doubling its capacity by setting up plants at Chandrapur and Haldia (600MW each) by FY13-14, beyond its traditional turf. The company will be selling c400-500MW of this on a merchant basis, resulting in higher margins. We expect the power business to witness strong profit growth (29% CAGR for FY11-14e).
- ▶ **Retail business cutting losses:** The key concern for CESC is ongoing losses at Spencer. But this is improving and we expect the losses to reduce to 10% of its power business profits by FY13e from 50% in FY10. According to the company, Spencer is cash positive at the store level and will break at the corporate level in another 2-3 years.
- ▶ **Strong growth, attractive valuation:** We expect CESC to report 50% EPS CAGR over FY11-13e, driven by growth in its power business and reduced losses in the retail business. The company is trading at a PB of 0.8x, the lowest among peers (2.0x).

Valuation and risks

- ▶ We use SOTP to value CESC – power business at INR408 (using DCF assuming WACC of 11%), retail business at INR29 negative (DCF, WACC of 13%) and investments and others at 1x book value (INR96) to arrive at a target price of INR475.
- ▶ **Key risks:** Higher than expected losses in its retail business and delay in capacity addition of its power plants.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	42,042	46,389	52,259	66,437	PE* (x)	20.2	13.8	11.6	6.0
EBITDA	4,552	7,396	8,219	14,121	EV/EBITDA (x)	13.1	10.0	11.2	7.1
EBIT	2,038	4,547	5,252	10,585	EV/sales (x)	1.4	1.6	1.8	1.5
Net income	2,004	2,932	3,471	6,756	P/BV (x)	0.9	0.8	0.8	0.7
EPS (INR)	16.04	23.47	27.78	54.08					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: CESC Ltd

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	42,042	46,389	52,259	66,437
EBITDA	4,552	7,396	8,219	14,121
Depreciation & amortisation	-2,514	-2,849	-2,967	-3,537
Operating profit/EBIT	2,038	4,547	5,252	10,585
Net interest	-2,040	-2,595	-2,539	-3,262
PBT	1,739	3,739	4,342	8,795
HSBC PBT	5,221	5,666	5,732	9,430
Taxation	-175	-913	-949	-2,075
Net profit	1,572	2,932	3,471	6,756
HSBC net profit	2,004	2,932	3,471	6,756

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	4,813	4,776	7,140	11,154
Capex	-10,952	-18,600	-24,109	-18,018
Cash flow from investment	-13,792	-18,600	-20,609	-18,018
Dividends	-582	-684	-809	-1,576
Change in net debt	8,601	14,508	14,278	8,440
FCF equity	-6,708	-15,611	-18,598	-8,337

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	82,872	98,622	119,765	134,246
Current assets	23,566	19,924	22,373	26,985
Cash & others	11,680	7,197	8,094	9,779
Total assets	113,346	125,454	145,546	164,639
Operating liabilities	31,506	31,447	33,780	37,604
Gross debt	35,189	45,214	60,389	70,514
Net debt	23,509	38,017	52,295	60,735
Shareholders funds	45,393	47,642	50,303	55,484
Invested capital	63,252	79,902	100,264	113,848

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	3.8	10.3	12.7	27.1
EBITDA	79.2	62.5	11.1	71.8
Operating profit	432.8	123.1	15.5	101.5
PBT	742.7	115.0	16.1	102.5
HSBC EPS	28.1	46.3	18.4	94.7

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	0.7	0.6	0.6	0.6
ROIC	3.1	4.8	4.6	7.6
ROE	4.4	6.3	7.1	12.8
ROA	3.1	4.0	4.0	5.9
EBITDA margin	10.8	15.9	15.7	21.3
Operating profit margin	4.8	9.8	10.1	15.9
EBITDA/net interest (x)	2.2	2.8	3.2	4.3
Net debt/equity	51.8	80.0	104.3	109.9
Net debt/EBITDA (x)	5.2	5.1	6.4	4.3
CF from operations/net debt	20.5	12.6	13.7	18.4

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	12.59	23.47	27.78	54.08
HSBC EPS (diluted)	16.04	23.47	27.78	54.08
DPS	28.01	7.49	7.53	11.65
Book value	363.33	381.33	402.63	444.10

Key forecast drivers

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Installed Capacity (MW)	1,225	1,225	1,125	1,725
Units Sold (MU)	7,828	8,216	8,623	11,519

Valuation data

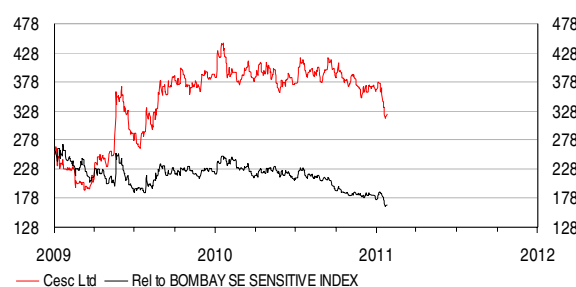
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	1.4	1.6	1.8	1.5
EV/EBITDA (x)	13.1	10.0	11.2	7.1
EV/IC (x)	0.9	0.9	0.9	0.9
PE* (x)	20.2	13.8	11.6	6.0
P/NAV (x)	0.9	0.8	0.8	0.7
FCF yield (%)	-18.6	-43.3	-47.0	-21.1
Dividend yield (%)	8.7	2.3	2.3	3.6

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	323.50	Target price (INR)	475.00	Potent' l rtn (%)	46.8
Reuters (Equity)	CESC.BO	Bloomberg (Equity)	CESC IN		
Market cap (USDm)	887	Market cap (INRm)	40,417		
Free float (%)	48	Enterprise value (INRm)	74,060		
Country	India	Sector	Electric Utilities		
Analyst	Arun Kumar Singh	Contact	+9122 22681778		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Dabur, DABUR IN, OW

Percy Panthaki* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1240 percypanthaki@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	114.00 97.85 16.5	Index Bloomberg	Bombay SE Sensitive Index DABUR IN
Adarsh Jain* Associate Bangalore	Performance Absolute Relative (%)	1M -1.5 3.9	3M -5.5 0.7	12M 23.9 11.2
			Market cap (USDm) Free float (%)	3,739 22

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ Dabur is a diversified consumer company with a wide ayurvedic/herbal product portfolio. Product categories include hair oil, shampoo, oral care, baby and skin care, healthcare and foods. The company also has an international presence. Dabur is a niche player and generally does not take competition head on, which we believe is a good strategy in the current competitive environment. Products mainly cater to the mid/low segment and the large addressable population in those segments, combined with upside potential on distribution penetration, give good growth potential.

Key points

- ▶ Near-term pressures on cost and competition in hair care likely to continue for 4-6 months.
- ▶ Fundamental story intact – we like Dabur for its niche positioning and ability to grow double digit volumes consistently.
- ▶ Recent acquisition of Namaste Labs likely to be 5% EPS accretive in FY12e.

Valuation and risks

- ▶ Our target price of INR114 is based on PE of 25x applied to Sep-2012e EPS. Over the last three years the forward PE has averaged 22x within a band of 13-29x. Strong volumes and broad-based growth justify the 15% premium over historical forward PE, in our view. Our FY13e EPS is INR4.94, which represents a 3-year (FY10-13e) CAGR of 19.6%. The stock is trading at 23.5x FY12e EPS.
- ▶ Downside risk: Higher raw material costs; higher than estimated retail losses; higher ad spend due to increased competition; price competition leading to lower unit realisations and margin compression; expected synergies from FCPL not realised.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	33914	39895	46857	54629	PE* (x)	33.9	28.1	23.5	19.8
EBITDA	6300	7562	9137	10962	EV/EBITDA (x)	26.6	21.5	17.3	13.9
EBIT	5738	6993	8545	10348	EV/sales (x)	4.9	4.1	3.4	2.8
Net income	5013	6048	7216	8574	P/BV (x)	9.0	5.9	4.5	3.6
EPS (INR)	2.89	3.49	4.16	4.94					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Dabur India

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	33,914	39,895	46,857	54,629
EBITDA	6,300	7,562	9,137	10,962
Depreciation & amortisation	-562	-570	-592	-614
Operating profit/EBIT	5,738	6,993	8,545	10,348
Net interest	-123	-108	-109	-110
PBT	6,009	7,455	9,006	10,836
HSBC PBT	6,009	7,455	9,006	10,836
Taxation	-1,005	-1,416	-1,801	-2,276
Net profit	5,013	6,048	7,216	8,574
HSBC net profit	5,013	6,048	7,216	8,574

Cash flow summary (INRm)

Cash flow from operations	4,966	5,885	7,040	8,438
Capex	-1,678	-400	-400	-400
Cash flow from investment	-455	-94	-121	-121
Dividends	-1,772	-2,188	-2,628	-3,130
Change in net debt	-922	-4,935	-4,306	-5,203
FCF equity	3,250	5,485	6,640	8,038

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	6,767	6,598	6,406	6,192
Current assets	11,058	17,549	23,663	30,845
Cash & others	1,923	6,876	11,200	16,421
Total assets	20,757	27,342	33,555	40,843
Operating liabilities	7,931	9,317	10,921	12,744
Gross debt	1,793	1,811	1,829	1,847
Net debt	-130	-5,065	-9,371	-14,574
Shareholders funds	9,354	14,272	18,564	23,665
Invested capital	7,970	7,954	7,948	7,872

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	20.9	17.6	17.5	16.6
EBITDA	33.9	20.0	20.8	20.0
Operating profit	36.2	21.9	22.2	21.1
PBT	35.1	24.1	20.8	20.3
HSBC EPS	28.2	20.7	19.3	18.8

Ratios (%)

Revenue/IC (x)	4.7	5.0	5.9	6.9
ROIC	65.3	69.6	84.4	101.6
ROE	57.2	51.2	44.0	40.6
ROA	25.8	25.5	23.9	23.2
EBITDA margin	18.6	19.0	19.5	20.1
Operating profit margin	16.9	17.5	18.2	18.9
EBITDA/net interest (x)	51.1	69.9	83.7	99.4
Net debt/equity	-1.4	-35.4	-50.4	-61.5
Net debt/EBITDA (x)	0.0	-0.7	-1.0	-1.3
CF from operations/net debt				

Per share data (INR)

EPS Rep (fully diluted)	2.89	3.49	4.16	4.94
HSBC EPS (fully diluted)	2.89	3.49	4.16	4.94
DPS	2.00	1.21	1.44	1.71
Book value	10.84	16.54	21.51	27.43

Valuation data

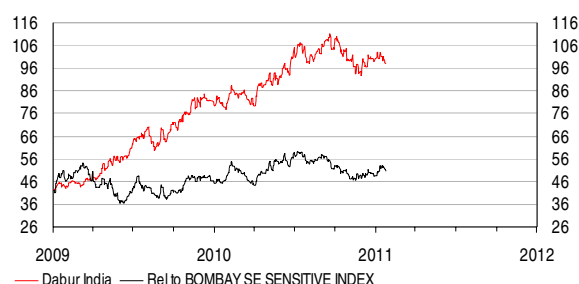
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	4.9	4.1	3.4	2.8
EV/EBITDA	26.6	21.5	17.3	13.9
EV/IC	21.0	20.4	19.8	19.3
PE*	33.9	28.1	23.5	19.8
P/Book value	9.0	5.9	4.5	3.6
FCF yield (%)	1.9	3.3	4.0	4.8
Dividend yield (%)	2.0	1.2	1.5	1.7

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	97.85	Target price (INR)	114.00	Potentl return (%)	16.5
Reuters (Equity)	DABU.BO	Bloomberg (Equity)	DABUR IN		
Market cap (USDm)	3,739	Market cap (INRm)	170,330		
Free float (%)	22	Enterprise value (INRm)	162,360		
Country	India	Sector	Personal Products		
Analyst	Percy Panthaki	Contact	+9122 2268 1240		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

GAIL, GAIL IN, N

Kumar Manish* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 22681238 kmanish@hsbc.co.in	Target price (INR)	527				Index	Bombay SE Sensitive Index
	Share price (INR)	460.2				Bloomberg	GAIL IN
	Potential return (%)	14.5					
	Performance	1M	3M	12M		Market cap (USDm)	12,814
	Absolute	-10.5	-8.6	15.2		Free float (%)	43
	Relative (%)	-5.9	-3.6	1.6			

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ GAIL is India's flagship natural gas company and operates in E&P, processing, transmission, distribution and marketing segments. It has capacity to carry 157MMscmd of natural gas and transports c71% of the gas consumed in India. It also has seven LPG processing units with a capacity to produce 1.2MMtpa of LPG and other liquid hydrocarbons.
- ▶ The company holds stakes in 27 exploration blocks and one coal bed methane block. It is also expanding its business into international markets.

Key points

- ▶ We think GAIL will continue to aggregate the bulk of the increasing supply and will maintain its dominant position in the Indian gas transmission segment. However, its expanded gas transmission capacity will likely remain poorly utilized.
- ▶ We expect utilization of the expanded HVJ (Hazira-Vijaipur-Jagdishpur) network to be a poor c60% in FY12 and c70% in FY13. Better petrochemical margins and lower percentage of share in under-recovery will likely protect the stock from bearish pressures.

Valuation and risks

- ▶ We value the core businesses of natural gas and LPG transmission, natural gas marketing, petrochemicals and LPG at a PE of 13.5x on FY12e core EPS. Our multiple reflects uncertainty related to under-recovery concerns.
- ▶ We believe investment risks include any downward revision in GAIL's tariff, a higher-than-expected share in under-recovery, or an inability to obtain approvals from the regulator. Potential catalysts include: updates on timely completion of its pipelines, new gas supply visibility, or discovery in its exploration blocks.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	249,964	274,149	292,265	316,222	PE* (x)	18.6	14.0	13.6	13.6
EBITDA	46,692	58,369	64,939	71,270	EV/EBITDA (x)	11.5	9.9	9.7	10.2
EBIT	41,074	52,181	56,447	60,452	EV/sales (x)	2.1	2.1	2.1	2.3
Net income	31,398	41,722	43,050	42,968	P/BV (x)	3.5	3.0	2.7	2.4
EPS (INR)	24.75	32.89	33.94	33.87					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: GAIL

Neutral

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	249,964	274,149	292,265	316,222
EBITDA	46,692	58,369	64,939	71,270
Depreciation & amortisation	-5,618	-6,188	-8,493	-10,818
Operating profit/EBIT	41,074	52,181	56,447	60,452
Net interest	-700	-2,103	-4,600	-6,332
PBT	45,785	55,578	57,347	59,620
HSBC PBT	45,785	55,578	57,347	59,620
Taxation	-14,386	-13,856	-14,297	-16,652
Net profit	31,398	41,722	43,050	42,968
HSBC net profit	31,398	41,722	43,050	42,968

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	23,025	60,846	54,211	58,293
Capex	-33,468	-66,964	-85,650	-137,650
Cash flow from investment	-36,825	-66,964	-85,650	-137,650
Dividends	-11,130	-16,325	-17,809	-17,809
Change in net debt	-4,351	42,752	48,850	96,640
FCF equity	-16,490	-14,397	-39,806	-89,626

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	142,616	203,392	280,549	407,381
Current assets	137,127	118,976	116,416	106,482
Cash & others	41,715	23,303	19,453	7,812
Total assets	300,473	343,098	417,695	534,593
Operating liabilities	103,784	93,888	95,377	97,346
Gross debt	14,804	39,144	84,144	169,144
Net debt	-26,911	15,841	64,691	161,332
Shareholders funds	167,990	193,387	218,629	243,788
Invested capital	134,244	205,177	282,136	408,705

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	5.1	9.7	6.6	8.2
EBITDA	15.3	25.0	11.3	9.7
Operating profit	17.2	27.0	8.2	7.1
PBT	8.9	21.4	3.2	4.0
HSBC EPS	11.6	32.9	3.2	-0.2

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	2.0	1.6	1.2	0.9
ROIC	22.1	23.1	17.4	12.6
ROE	19.9	23.1	20.9	18.6
ROA	11.5	13.5	12.2	10.0
EBITDA margin	18.7	21.3	22.2	22.5
Operating profit margin	16.4	19.0	19.3	19.1
EBITDA/net interest (x)	66.7	27.8	14.1	11.3
Net debt/equity	-16.0	8.2	29.6	66.2
Net debt/EBITDA (x)	-0.6	0.3	1.0	2.3
CF from operations/net debt		384.1	83.8	36.1

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	24.75	32.89	33.94	33.87
HSBC EPS (diluted)	24.75	32.89	33.94	33.87
DPS	7.50	11.00	12.00	12.00
Book value	132.43	152.46	172.36	192.19

Valuation data

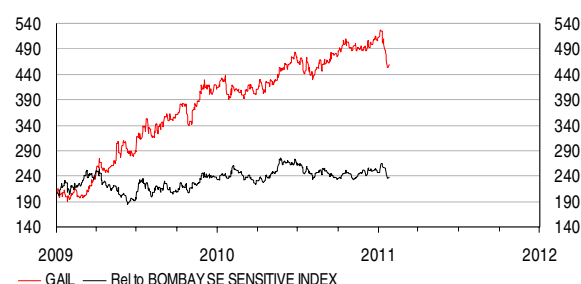
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	2.1	2.1	2.1	2.3
EV/EBITDA (x)	11.5	9.9	9.7	10.2
EV/IC (x)	4.0	2.8	2.2	1.8
PE* (x)	18.6	14.0	13.6	13.6
P/NAV (x)	3.5	3.0	2.7	2.4
FCF yield (%)	-2.9	-2.6	-7.1	-15.9
Dividend yield (%)	1.6	2.4	2.6	2.6

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	460.20	Target price (INR)	527.00	Potent' l rtn (%)	14.5
Reuters (Equity)	GAIL.BO	Bloomberg (Equity)	GAIL IN		
Market cap (USDm)	12,814	Market cap (INRm)	583,753		
Free float (%)	43	Enterprise value (INRm)	578,864		
Country	India	Sector	Gas Utilities		
Analyst	Kumar Manish	Contact	+91 22 2268 1238		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

GMR Infra., GMRI IN, UW(V)

Suman Guliani* Analyst HSBC Bank plc +91 80 3001 3747 sumanguliani@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	51.90 41.20 26.0%	Index Bloomberg	Bombay SE Sensitive Index GMRI IN
	Performance	1M -7.5 -3.1	3M -23.2 -19.1	12M -34.4 -42.2
	Absolute Relative (%)		Market cap (USDm) Free float (%)	3,520 26

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ GMR is one of the leading infrastructure developers in India, with interests in airports, roads, urban infrastructure as well as the power sector. Its airport portfolio includes two in India (Delhi and Hyderabad) and two overseas (Istanbul and Male). It has nine road projects, of which six are operational (421 km) and three are under construction (309 km). It has 14 power projects of which three are operational (808 MW) and 11 projects (8448 MW) are at various stages of implementation. In November 2010, the company divested its 50% shareholding in InterGen to China Huaneng Group for an equity value of USD1.2bn.

Key points

- ▶ **Strong capacity addition in power, but back ended:** GMR's ten-fold capacity addition over the next 5-7 years is mostly back ended with the first capacity addition of 768MW gas-based Vemagiri project expected to be operational at end FY12e. GMR is also expected to sell 40-45% of its capacity on a short term basis, increasing pricing risk (short term prices are expected to fall).
- ▶ **Airport business - development of real estate is key, but not likely in near to medium term:** GMR has 1,750 acres of land around Delhi airport (250 acres) and Hyderabad airport (1,500 acres). It has only monetised c30 acres of the Delhi airport land and we expect the development of remaining land bank to be a gradual process as there is oversupply scenario in both Delhi (NCR region) and Hyderabad. Improving economic fundamentals are positive for air traffic but a rise in air travel cost, driven by higher fuel costs and airport charges, could impact growth in air traffic.
- ▶ **In near term, EPS to decline** at a CAGR of 12% over FY09-12 on the back of losses in its airport and road business due to huge financing (interest) and capital (depreciation) costs.

Valuation and risks

- ▶ We use SOTP to value GMR. We value its airport business (including real estate) at INR18.4 per share (35.4% of total valuation), power business at INR24.2 (46.8%) and roads at INR3.6 (6.9%) and arrive at a target price of INR51.9.
- ▶ **Key upside risks:** Faster than expected execution and higher-than-expected merchant tariff.

Financial forecasts (INRm)

Year to Mar	2009a	2010e	2011e	2012e	Key ratios	2009	2010e	2011e	2012e
Revenue	40,192	44,039	52,817	60,390	PE* (x)	53.7	90.5	64.6	78.6
EBITDA	10,668	14,598	18,948	22,166	EV/EBITDA (x)	24.5	19.8	16.9	17.3
EBIT	6,770	8,447	11,011	12,469	EV/sales (x)	6.5	6.6	6.1	6.3
Net income	2,795	1,663	2,337	1,921	P/BV (x)	2.3	2.3	2.2	2.1
EPS (INR)	0.77	0.46	0.64	0.52					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: GMR Infrastructure Ltd

Underweight (V)

Financial statements

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Profit & loss summary (INRm)				
Revenue	40,192	44,039	52,817	60,390
EBITDA	10,668	14,598	18,948	22,166
Depreciation & amortisation	-3,898	-6,150	-7,937	-9,697
Operating profit/EBIT	6,770	8,447	11,011	12,469
Net interest	-3,682	-6,909	-8,400	-10,537
PBT	3,301	2,048	2,764	1,944
HSBC PBT	3,301	2,048	2,764	1,944
Taxation	-530	-608	-865	-892
Net profit	2,795	1,663	2,337	1,921
HSBC net profit	2,795	1,663	2,337	1,921

Cash flow summary (INRm)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Cash flow from operations	2,224	5,164	6,989	7,320
Capex	-70,397	-41,277	-59,060	-80,116
Cash flow from investment	-34,510	-42,477	-59,060	-80,116
Dividends	0	0	0	0
Change in net debt	24,748	37,622	44,026	52,993
FCF equity	-68,288	-36,623	-52,225	-72,809

Balance sheet summary (INRm)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	164,426	200,752	251,875	322,294
Current assets	45,383	29,615	31,263	37,438
Cash & others	24,665	5,794	2,028	2,811
Total assets	222,917	252,290	317,358	384,360
Operating liabilities	18,933	28,425	52,102	65,583
Gross debt	120,238	138,989	179,248	233,025
Net debt	95,573	133,195	177,221	230,214
Shareholders funds	64,711	66,263	68,601	70,522
Invested capital	166,210	196,149	229,009	291,338

Ratio, growth and per share analysis

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Y-o-y % change				
Revenue	75.1	9.6	19.9	14.3
EBITDA	78.2	36.8	29.8	17.0
Operating profit	61.2	24.8	30.3	13.2
PBT	2.8	-38.0	35.0	-29.6
HSBC EPS	27.0	-40.7	40.0	-17.8

Ratios (%)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Revenue/IC (x)	0.3	0.2	0.2	0.2
ROIC	4.3	3.3	3.6	2.6
ROE	4.4	2.5	3.5	2.8
ROA	3.0	2.6	2.7	1.9
EBITDA margin	26.5	33.1	35.9	36.7
Operating profit margin	16.8	19.2	20.8	20.6
EBITDA/net interest (x)	2.9	2.1	2.3	2.1
Net debt/equity	115.5	158.4	206.1	264.5
Net debt/EBITDA (x)	9.0	9.1	9.4	10.4
CF from operations/net debt	2.3	3.9	3.9	3.2

Per share data (INR)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
EPS Rep (diluted)	0.77	0.46	0.64	0.52
HSBC EPS (diluted)	0.77	0.46	0.64	0.52
DPS	0.00	0.00	0.00	0.00
Book value	17.77	18.13	18.71	19.23

Key forecast drivers

Year to	03/2009a	03/2010e	03/2011e	03/2012e
DIAL overall pax growth rate %	-5	11	15	13
HIAL overall pax growth rate %	-11	8	14	12
Sabiha overall pax grwth' rate	24	55	17	17
Installed power capacity (MW)	823	823	823	1,207

Valuation data

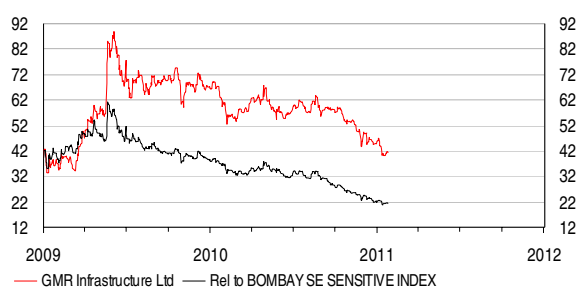
Year to	03/2009a	03/2010e	03/2011e	03/2012e
EV/sales (x)	6.5	6.6	6.1	6.3
EV/EBITDA (x)	24.5	19.8	16.9	17.3
EV/IC (x)	1.6	1.5	1.4	1.3
PE* (x)	53.7	90.5	64.6	78.6
P/NAV (x)	2.3	2.3	2.2	2.1
FCF yield (%)	-41.3	-23.4	-36.4	-47.8
Dividend yield (%)	0.0	0.0	0.0	0.0

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	41.20	Target price (INR)	51.90	Potent' l rtn (%)	26.0
Reuters (Equity)	GMRI.BO	Bloomberg (Equity)	GMRI IN		
Market cap (USDm)	3,520	Market cap (INRm)	160,368		
Free float (%)	26	Enterprise value (INRm)	289,478		
Country	India	Sector	Transport Infrastructure		
Analyst	Suman Guliani	Contact	+91 80 3001 3747		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Grasim Industries, GRASIM IN, N

Suman Guliani* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 80 3001 3747 sumanguliani@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	2,262.23 2396.05 -4.2%	Index Bloomberg	Bombay SE Sensitive Index GRASIM IN
Puneet Dhanuka* Associate Bangalore	Performance Absolute Relative (%)	1M 4.9 9.9	3M 6.2 11.8	12M 15.3 1.5
			Market cap (USDm) Free float (%)	4,823 69

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Grasim Industries (Grasim) is the flagship company of the Aditya Birla Group and is engaged in diversified businesses including cement (76% of revenue, controlled through Ultratech), Viscose Staple Fibre (VSF, 20%), and chemicals and textiles (4%). Grasim's turnover and PAT recorded CAGRs of 16% and 29%, respectively, in the last five years.
- ▶ Grasim has gone through major restructuring in the last two years, including the sale of its sponge iron business and transfer of the cement business to Ultratech. After the transfer of the cement business, Grasim holds a 60.3% stake in Ultratech.

Key points

- ▶ Grasim has big expansion plans for both VSF and the cement business. It is planning for brownfield cement expansion of 9.2mtpa and growing its VSF capacity by c156ktpa, both by FY13e.
- ▶ We expect cement business performance to be muted as lower utilisation rates and higher costs will lead to lower cement prices and margin pressure. However, the VSF business is expected to witness strong volumes and higher prices, which will provide some support to earnings.

Valuation and risks

- ▶ Our target price of INR2,262 is based on SOTP valuation, where we value the cement business at 6x FY12e EBITDA and VSF business at 4x FY12e EBITDA.
- ▶ The key upside risk to our estimates is higher than expected cement realisation. The main downside risk is a significant slowdown in construction activities which could lead to lower cement demand.

Financial forecasts (INRm)

Year to Mar	2009a	2010e	2011e	2012e	Key ratios	2009a	2010e	2011e	2012e
Revenue	171,871	195,124	209,568	239,322	PE* (x)	10.1	7.2	10.1	8.8
EBITDA	42,029	57,631	51,940	59,452	EV/EBITDA (x)	6.5	4.5	4.8	4.0
EBIT	34,230	48,108	40,949	47,517	EV/sales (x)	1.6	1.3	1.2	1.0
Net income	21,793	30,674	21,698	24,954	P/BV (x)	2.0	1.6	1.5	1.3
EPS (INR)	237.68	334.55	236.64	272.16					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Grasim Industries

Neutral

Financial statements

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Profit & loss summary (INRm)				
Revenue	171,871	195,124	209,568	239,322
EBITDA	42,029	57,631	51,940	59,452
Depreciation & amortisation	-7,800	-9,523	-10,990	-11,935
Operating profit/EBIT	34,230	48,108	40,949	47,517
Net interest	-2,677	-3,250	-2,745	-1,950
PBT	36,093	53,699	43,982	51,544
HSBC PBT	36,093	53,699	43,982	51,544
Taxation	-9,843	-15,369	-13,597	-16,021
Net profit	21,793	30,674	21,698	24,954
HSBC net profit	21,793	30,674	21,698	24,954

Cash flow summary (INRm)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Cash flow from operations	34,107	40,466	36,437	39,546
Capex	-24,917	-24,500	-20,000	-20,000
Cash flow from investment	-34,272	-24,500	-20,000	-20,000
Dividends	-3,879	-4,873	-5,495	-5,993
Change in net debt	6,045	-11,093	-10,942	-13,553
FCF equity	-310	7,125	10,660	13,569

Balance sheet summary (INRm)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Intangible fixed assets	18,394	18,394	18,394	18,394
Tangible fixed assets	136,040	151,017	160,026	168,091
Current assets	44,595	59,773	68,424	78,425
Cash & others	2,179	11,118	10,601	9,154
Total assets	230,242	260,398	278,058	296,124
Operating liabilities	28,007	26,997	30,632	33,064
Gross debt	55,366	53,212	41,754	26,754
Net debt	53,187	42,094	31,153	17,600
Shareholders funds	109,329	135,130	151,332	170,293
Invested capital	168,842	191,069	205,611	222,693

Ratio, growth and per share analysis

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Y-o-y % change				
Revenue	9.3	13.5	7.4	14.2
EBITDA	-11.8	37.1	-9.9	14.5
Operating profit	-18.0	40.5	-14.9	16.0
PBT	-23.2	48.8	-18.1	17.2
HSBC EPS	-21.6	40.8	-29.3	15.0

Ratios (%)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Revenue/IC (x)	1.1	1.1	1.1	1.1
ROIC	15.6	19.1	14.3	15.3
ROE	21.7	25.1	15.1	15.5
ROA	13.2	16.6	12.0	12.8
EBITDA margin	24.5	29.5	24.8	24.8
Operating profit margin	19.9	24.7	19.5	19.9
EBITDA/net interest (x)	15.7	17.7	18.9	30.5
Net debt/equity	43.0	26.8	17.1	8.3
Net debt/EBITDA (x)	1.3	0.7	0.6	0.3
CF from operations/net debt	64.1	96.1	117.0	224.7

Per share data (INR)

Year to	03/2009a	03/2010e	03/2011e	03/2012e
EPS Rep (diluted)	237.68	334.55	236.64	272.16
HSBC EPS (diluted)	237.68	334.55	236.64	272.16
DPS	30.00	30.00	30.00	30.00
Book value	1192.38	1473.78	1650.49	1857.28

Valuation data

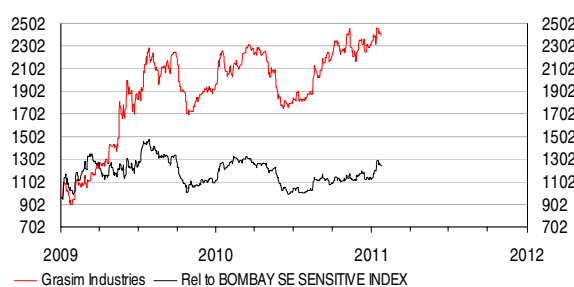
Year to	03/2009a	03/2010e	03/2011e	03/2012e
EV/sales (x)	1.6	1.3	1.2	1.0
EV/EBITDA (x)	6.5	4.5	4.8	4.0
EV/IC (x)	1.6	1.4	1.2	1.1
PE* (x)	10.1	7.2	10.1	8.8
P/NAV (x)	2.0	1.6	1.5	1.3
FCF yield (%)	-0.1	3.2	4.9	6.2
Dividend yield (%)	1.3	1.3	1.3	1.3

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	2396.05	Target price (INR)	2262.23	Potent' l rtn (%)	-4.2%
Reuters (Equity)	GRAS.BO	Bloomberg (Equity)	GRASIM IN		
Market cap (USDm)	4,823	Market cap (INRm)	219,710		
Free float (%)	69	Enterprise value (INRm)	261,804		
Country	India	Sector	Construction Materials		
Analyst	Suman Guliani	Contact	+91 80 3001 3747		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

HCL Tech, HCLT IN, OW

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	545 508 7.3	Index Bloomberg	Bombay SE Sensitive Index HCLT IN
Atul Agrawal* Associate Bangalore	Performance Absolute Relative (%)	1M 11.6 17	3M 21.5 28	12M 32.6 16.7
			Market cap (USDm) Free float (%)	7630 23

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ HCL Technologies is a leading global IT services company and derives c30% of its revenues from custom applications and industry solutions.
- ▶ HCL has a well diversified revenue profile and has been successful in the infrastructure management market.
- ▶ The company has been winning mega deals, providing strong visibility for forward revenues.

Key points

- ▶ Expect top-line outperformance to continue in 2011. A revival in the SAP market would further complement its strength in the infrastructure and applications business.
- ▶ EBITDA margins are likely to expand in the coming quarters.
- ▶ Expect robust 40% earnings growth in FY12 (contributed by strong top-line growth 28%, expansion in EBITDA margin (+100bps y-o-y) and lower hedging losses).

Valuation and risks

- ▶ We value HCL at 15x our CY12e EPS, giving a target price of INR545. This multiple is at a 30% discount to Infosys, in line with the historical average. The stock currently trades at c15x our FY12e EPS, which is c10% above consensus.
- ▶ **Risks:** Wage inflation is the primary risk to our estimates. INR appreciation and macro weakness remain the risks for top-line growth.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	125,628	160,172	202,870	252,837	PE* (x)	28.8	21.9	15.5	12.7
EBITDA	25,701	27,952	37,321	46,301	EV/EBITDA (x)	13.2	11.7	8.4	6.4
EBIT	20,698	22,776	30,167	37,391	EV/sales (x)	2.7	2.0	1.5	1.2
Net income	13,142	17,165	23,665	28,510	P/BV (x)	4.8	4.3	3.5	2.9
EPS (INR)	17.62	23.21	32.78	39.98					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: HCL Technologies

Overweight

Financial statements

Year to	06/2010a	06/2011e	06/2012e	06/2013e
Profit & loss summary (INRm)				
Revenue	125,628	160,172	202,870	252,837
EBITDA	25,701	27,952	37,321	46,301
Depreciation & amortisation	-5,003	-5,175	-7,154	-8,910
Operating profit/EBIT	20,698	22,776	30,167	37,391
Net interest	-421	218	1,034	770
PBT	15,548	22,130	31,201	38,161
HSBC PBT	15,548	22,130	31,201	38,161
Taxation	-2,406	-4,786	-7,492	-9,606
Net profit	13,142	17,165	23,665	28,510
HSBC net profit	13,142	17,165	23,665	28,510

Cash flow summary (INRm)

Year to	06/2010a	06/2011e	06/2012e	06/2013e
Cash flow from operations	14,149	25,502	30,321	39,814
Capex	-6,117	-9,610	-12,172	-15,170
Cash flow from investment	-11,826	-15,886	-12,172	-15,170
Dividends	-3,149	-5,586	-5,586	-5,586
Change in net debt	-8,560	-9,589	-12,565	-19,058
FCF equity	16,579	16,558	18,194	24,689

Balance sheet summary (INRm)

Year to	06/2010a	06/2011e	06/2012e	06/2013e
Intangible fixed assets	43,133	42,186	42,201	42,201
Tangible fixed assets	18,492	22,343	27,370	33,630
Current assets	63,776	76,035	99,582	128,907
Cash & others	24,423	33,545	46,120	65,177
Total assets	135,754	153,803	182,396	217,981
Operating liabilities	38,721	47,875	58,351	71,012
Gross debt	26,639	26,172	26,181	26,181
Net debt	2,216	-7,373	-19,939	-38,996
Shareholders funds	70,385	79,757	97,864	120,788
Invested capital	62,257	59,145	64,682	68,548

Ratio, growth and per share analysis

Year to	06/2010a	06/2011e	06/2012e	06/2013e
Y-o-y % change				
Revenue	18.6	27.5	26.7	24.6
EBITDA	13.5	8.8	33.5	24.1
Operating profit	14.2	10.0	32.4	23.9
PBT	4.7	42.3	41.0	22.3
HSBC EPS	-7.8	31.8	41.2	22.0

Ratios (%)

Year to	06/2010a	06/2011e	06/2012e	06/2013e
Revenue/IC (x)	2.1	2.6	3.3	3.8
ROIC	28.9	29.4	37.0	42.0
ROE	20.7	22.9	26.6	26.1
ROA	10.0	12.0	14.1	14.3
EBITDA margin	20.5	17.5	18.4	18.3
Operating profit margin	16.5	14.2	14.9	14.8
EBITDA/net interest (x)	61.0			
Net debt/equity	3.1	-9.2	-20.4	-32.3
Net debt/EBITDA (x)	0.1	-0.3	-0.5	-0.8
CF from operations/net debt	638.6			

Per share data (INR)

Year to	06/2010a	06/2011e	06/2012e	06/2013e
EPS Rep (diluted)	17.62	23.21	32.78	39.98
HSBC EPS (diluted)	17.62	23.21	32.78	39.98
DPS	5.00	8.00	8.00	8.00
Book value	105.07	116.83	143.35	176.93

Valuation data

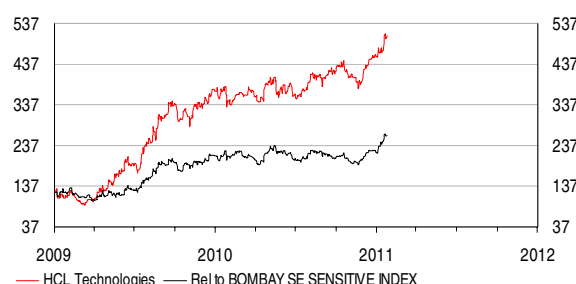
Year to	06/2010a	06/2011e	06/2012e	06/2013e
EV/sales (x)	2.7	2.0	1.5	1.2
EV/EBITDA (x)	13.2	11.7	8.4	6.4
EV/IC (x)	5.5	5.5	4.9	4.3
PE* (x)	28.8	21.9	15.5	12.7
P/NAV (x)	4.8	4.3	3.5	2.9
FCF yield (%)	4.9	5.0	5.4	7.4
Dividend yield (%)	1.0	1.6	1.6	1.6

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	508.15	Target price (INR)	545.00	Potent' l rtn (%)	7.3
Reuters (Equity)	HCLT.BO	Bloomberg (Equity)	HCLT IN		
Market cap (USDm)	7,630	Market cap (INRm)	347,608		
Free float (%)	23	Enterprise value (INRm)	326,996		
Country	India	Sector	It Services		
Analyst	Yogesh Aggarwal	Contact	+9122 2268 1246		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

HDFC Ltd, HDFC IN, OW

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	756 670 13	Index Bloomberg	Bombay SE Sensitive Index HDFC IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance Absolute Relative (%)	1M -4.2 0.4	3M -3.3 1.9	12M 39.0 22.3
			Market cap (USDm) Free float (%)	21,515 100

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ HDFC was incorporated in 1977 as India's first specialised housing finance institution. Over the years, HDFC has emerged as a financial conglomerate with a presence in the entire gamut of financial services, including banking, insurance (life and non-life), asset management, real estate venture capital and education loans.
- ▶ Its product range includes loans for the purchase and construction of a residential unit, purchase of land, home improvement loans, home extension loans, non-residential premises loans for professionals and loan against property.
- ▶ HDFC has a diversified and stable resource base comprising fixed deposits, bank borrowings, debentures, bonds, securitisation and foreign currency borrowings.
- ▶ HDFC has a distribution network of 283 offices (which includes 66 offices of HDFC's wholly owned distribution company HDFC Sales Private Ltd) covering over 2,400 towns and cities in India. It also has offices in Dubai, London and Singapore and service associates in the Middle East.

Key points

- ▶ Over FY10-13e, we expect 19.5% earnings CAGR, supported by healthy business volumes and stable spreads.
- ▶ In the near term, expectations of easing liquidity after March, as government spending intensifies, could cause borrowing costs to plateau and therefore could be a stock catalyst.

Valuation and risks

- ▶ We value HDFC using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). HDFC is currently trading at 23.5x PE and 5x PB. We expect a modest increase in valuations, with target PE and PB multiples at 24x and 5x. We expect FY11-13e EPS CAGR of 19%, ROA to increase to 2.9% from 2.7%, and ROE to improve to 23.6% from 21.5%.
- ▶ Downside risks: 1) further liquidity tightness and increase in rates could slow business momentum; 2) asset quality risks.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	42,978	51,687	61,625	73,002	PE* (x)	34.0	28.0	23.5	19.9
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	39,740	47,868	57,128	67,735	EV/sales (x)	na	na	na	na
Net income	28,265	34,267	40,950	48,272	P/BV (x)	6.3	5.8	5.1	4.4
EPS (INR)	19.7	23.9	28.5	33.6					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: HDFC Ltd

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary(INRm)				
Net Interest Income	36,014	44,183	53,358	64,004
Non-interest Income	6,963	7,504	8,267	8,998
Net fees/commission	2,317	2,258	2,608	2,980
Trading profits	2,094	2,932	3,137	3,294
Other	2,553	2,314	2,522	2,725
Total Operating income	42,978	51,687	61,625	73,002
Operating expense	3,238	3,818	4,497	5,267
Staff costs	1,467	1,758	2,118	2,519
Other oper expenses	1,771	2,060	2,379	2,748
PPOP	39,740	47,868	57,128	67,735
Provisions	580	603	645	691
Bad debt	-	-	-	-
Other	-	-	-	-
Other non-oper profit(loss)	-	-	-	-
HSBC PBT	39,160	47,265	56,483	67,044
Exceptionals	-	-	-	-
Profit-before tax	39,160	47,265	56,483	67,044
Taxation	10,895	12,998	15,533	18,772
PAT	28,265	34,267	40,950	48,272
Minorities + pref dividend	-	-	-	-
Attributable profit	28,265	34,267	40,950	48,272
HSBC attributable profit	28,265	34,267	40,950	48,272

Balance sheet summary (INRm)

Total assets	1,166,414	1,336,774	1,558,379	1,808,226
Customer loans (net)	979,670	1,151,908	1,351,562	1,583,119
Investment assets	107,275	107,250	110,365	113,697
Other assets	79,470	77,616	96,452	111,410
Total Liabilities	1,014,438	1,169,984	1,368,812	1,588,616
Customer deposits	230,811	281,405	336,536	403,441
Debt securities issued	734,842	834,236	970,721	1,116,896
Other liabilities	48,785	54,343	61,554	68,278
Total capital	151,977	166,790	189,567	219,610
Ordinary equity	151,977	166,790	189,567	219,610
Minorities + other capital	-	-	-	-
IEA (avg)	1,079,242	1,237,557	1,431,315	1,665,359
IBL (avg)	902,107	1,040,647	1,211,450	1,413,798

Capital adequacy (%)

RWA (INRm)	965,321	1,072,589	1,238,559	1,431,509
Core tier 1	12.8%	8.2%	8.8%	9.6%
Total tier 1	12.8%	8.2%	8.8%	9.6%
Total capital	14.6%	12.4%	12.8%	13.2%

Per share data (INR)

EPS reported (fully diluted)	19.7	23.9	28.5	33.6
HSBC EPS (fully diluted)	19.7	23.9	28.5	33.6
DPS	7.2	9.0	10.0	10.0
NAV	105.9	116.2	132.1	153.0
NAV (including goodwill)	105.9	116.2	132.1	153.0

ROAA deconstruction

Net interest income	3.30	3.53	3.69	3.80
Total interest income	9.77	9.59	9.89	10.10
Total interest expense	6.47	6.06	6.20	6.29
Net fees & commission	0.21	0.18	0.18	0.18
Other income	0.43	0.42	0.39	0.36
Operating income	3.94	4.13	4.26	4.34
Operating expenses	0.30	0.31	0.31	0.31
Staff costs	0.13	0.14	0.15	0.15
Other oper exp	0.16	0.16	0.16	0.16
PPOP	3.64	3.82	3.95	4.02
Provisions	0.05	0.05	0.04	0.04
Non-op items	-	-	-	-
PBT	3.59	3.78	3.90	3.98
Taxation	1.00	1.04	1.07	1.12
PAT	2.59	2.74	2.83	2.87

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (y-o-y %)				
Net interest income	11.6	22.7	20.8	20.0
Non-interest income	94.1	7.8	10.2	8.9
Operating expense	2.4	17.9	17.8	17.1
PPOP	21.6	20.5	19.3	18.6
Provisions	16.0	4.0	7.0	7.0
PBT	21.7	20.7	19.5	18.7
PAT	23.8	21.2	19.5	17.9
Customer loans (net)	15.0	17.6	17.3	17.1
Total Assets	14.7	14.6	16.6	16.0
RWA	22.4	11.1	15.5	15.6
Customer deposits	19.1	21.9	19.6	19.9

Ratios (%)

NIM	3.34	3.57	3.73	3.84
Gross yield	9.88	9.70	10.00	10.20
Cost of funds	7.83	7.29	7.41	7.49
Spread	2.05	2.41	2.59	2.71

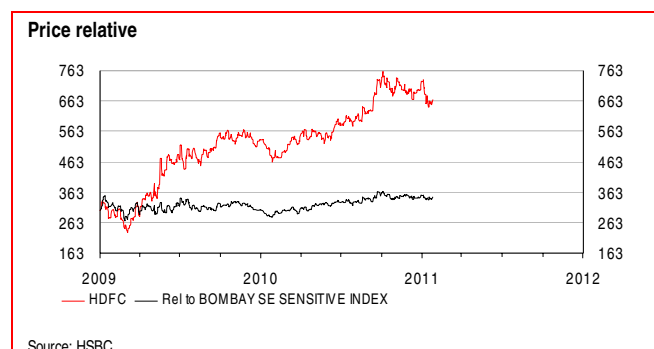
NPL/gross loans	0.8	0.8	0.7	0.7
Credit cost	0.1	0.1	0.1	0.1
Coverage	84.7	79.7	76.6	73.2
NPL/RWA	0.8	0.8	0.8	0.8
Provisions/RWA	0.7	0.6	0.6	0.6
Net write-off/RWA	-	-	-	-
NPL/NTE	5.1	5.2	5.2	5.1
Net loans/total assets	84.0	86.2	86.7	87.6
RWA/total assets	82.8	80.2	79.5	79.2
Loans/deposits	424.4	409.3	401.6	392.4
Avg IEA/avg total assets	98.9	98.9	98.9	98.9
Avg IBL/avg total liab	23.7	23.8	23.9	23.9

Cost/income	7.5	7.4	7.3	7.2
Non-int income/total income	16.2	14.5	13.4	12.3
ROAA (including goodwill)	2.59	2.74	2.83	2.87
ROAE (including goodwill)	19.95	21.50	22.98	23.59
Return on avg tier 1	33.5	42.1	41.7	39.3
Leverage (x)	7.7	7.9	8.1	8.2

Valuation data

PE (diluted EPS)	34.0	28.0	23.5	19.9
P/PPOP	24.2	20.1	16.8	14.2
P/BVPS	6.3	5.8	5.1	4.4
P/NTE	6.3	5.8	5.1	4.4
Dividend yield (x)	1.1	1.3	1.5	1.5
P/Deposit	NA	NA	NA	NA
P/Asset	0.82	0.72	0.62	0.5

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

HDFC Bank, HDFCB IN, OW

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	2,850 2149 33	Index Bloomberg	Bombay SE Sensitive Index HDFCB IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance Absolute Relative (%)	1M -3.1 1.5	3M -7.7 -2.8	12M 28.1 12.8
			Market cap (USDm) Free float (%)	21,899 57

Note: Price at close of 24 January 2011. Source: HSBC
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ HDFC Bank is one of the most well-managed private sector banks in India. Since its inception by HDFC Ltd in 1995, it has grown significantly and its domestic network now stands at 1,725 branches and 5,016 ATMs. The bank has a balance sheet size of cINR2,500bn with c4% share in system loans and deposits.
- ▶ HDFC Bank offers a wide range of commercial and transactional banking services and treasury products to wholesale and retail customers. The bank has three key business segments: wholesale banking, retail banking and treasury.

Key points

- ▶ HDFC Bank is one of the most consistent performers in terms of loan growth, margins, bottom line growth and asset quality. We expect the bank's loan growth to remain healthy at c30% over FY10-13e for both corporate and the retail books, along with a stable CASA ratio (50%) and stable margins (over 4%).
- ▶ We look for 25% earnings CAGR in FY12-13e, with margins remaining flattish and ROA at 1.6%, and ROE inching up to 20% by FY13e.

Valuation and risks

- ▶ HDFC Bank is currently trading at 20x FY12e PE and 3.4x FY12e PB. The stock has underperformed the market since Sep-10 by 20%, but only marginally compared to Bankex. We believe the stock's valuation correlation with short interest rates has broken down temporarily as doubts had arisen over its ability to maintain margins (and CASA) which it has proven and hence we expect the stock to outperform.
- ▶ We value HDBK using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). Given the robust earnings and balance sheet growth expected, our target PE and PB multiples are 24x and 3.6x.
- ▶ Downside risks: Slower than expected loan growth and worsening asset quality.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	121,942	147,418	184,916	230,821	PE* (x)	32.1	25.0	19.8	16.0
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	64,297	77,976	98,077	122,020	EV/sales (x)	na	na	na	na
Net income	29,487	39,349	49,555	61,513	P/BV (x)	4.6	4.0	3.4	2.9
EPS (INR)	66.9	86.0	108.3	134.4					

*Based on HSBC EPS (diluted). Source: HSBC

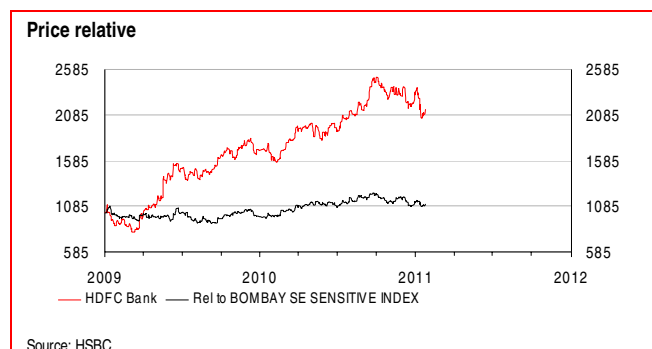
Financials & valuation: HDFC Bank

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary (INRm)				
Net Interest Income	83,866	105,250	131,500	161,578
Non-interest Income	38,076	42,168	53,416	69,243
Net fees/commission	28,306	34,506	42,792	54,838
Trading profits	3,481	780	1,931	2,257
Other	6,289	6,883	8,693	12,148
Total Operating income	121,942	147,418	184,916	230,821
Operating expense	57,645	69,442	86,840	108,801
Staff costs	22,892	29,470	38,153	50,109
Other oper expenses	34,753	39,972	48,687	58,691
PPOP	64,297	77,976	98,077	122,020
Provisions	21,406	20,532	25,734	32,220
Bad debt	19,389	16,662	20,618	26,191
Other	2,017	3,870	5,115	6,029
Other non-oper profit(loss)				
HSBC PBT	42,891	57,443	72,343	89,801
Exceptionals	-	-	-	-
Profit-before tax	42,891	57,443	72,343	89,801
Taxation	13,404	18,095	22,788	28,287
PAT	29,487	39,349	49,555	61,513
Minorities + pref dividend	-	-	-	-
Attributable profit	29,487	39,349	49,555	61,513
HSBC attributable profit	29,487	39,349	49,555	61,513
Balance sheet summary (INRm)				
Total assets	2,224,586	2,715,291	3,421,687	4,194,743
Customer loans (net)	1,268,306	1,629,457	2,119,352	2,642,668
Investment assets	576,076	700,877	816,233	954,959
Other assets	380,204	384,957	486,102	597,116
Total Liabilities	2,009,361	2,468,245	3,133,387	3,853,231
Customer deposits	1,674,044	2,152,155	2,757,926	3,419,898
Debt securities issued	129,157	83,328	118,970	139,754
Other liabilities	206,159	232,761	256,491	293,578
Total capital	215,196	247,047	288,300	341,512
Ordinary equity	215,196	247,047	288,300	341,512
Minorities + other capital				
IEA (avg)	1,945,672	2,377,971	2,957,524	3,675,224
IBL (avg)	1,705,717	2,081,563	2,624,632	3,293,560
Capital adequacy (%)				
RWA (INRm)	1,560,539	2,089,737	2,643,750	3,247,121
Core tier 1	13.3%	13.5%	12.4%	12.0%
Total tier 1	13.3%	13.5%	12.4%	12.0%
Total capital	17.4%	17.8%	16.2%	15.6%
Per share data (INR)				
EPS reported (fully diluted)	66.9	86.0	108.3	134.4
HSBC EPS (fully diluted)	66.9	86.0	108.3	134.4
DPS	12.0	14.0	15.5	15.5
NAV	470.1	539.7	629.8	746.1
NAV (including goodwill)	470.1	539.7	629.8	746.1
ROAA deconstruction				
Net interest income	4.13	4.26	4.29	4.24
Total interest income	7.97	8.67	9.40	9.56
Total interest expense	3.84	4.41	5.12	5.32
Net fees & commission	1.40	1.40	1.39	1.44
Other income	0.48	0.31	0.35	0.38
Operating income	6.01	5.97	6.03	6.06
Operating expenses	2.84	2.81	2.83	2.86
Staff costs	1.13	1.19	1.24	1.32
Other oper exp	1.71	1.62	1.59	1.54
PPOP	3.17	3.16	3.20	3.20
Provisions	1.06	0.83	0.84	0.85
Non-op items	-	-	-	-
PBT	2.11	2.33	2.36	2.36
Taxation	0.66	0.73	0.74	0.74
PAT	1.45	1.59	1.61	1.62

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (y-o-y %)				
Net interest income	13.0	25.5	24.9	22.9
Non-interest income	15.7	10.7	26.7	29.6
Operating expense	4.2	20.5	25.1	25.3
PPOP	24.2	21.3	25.8	24.4
Provisions	13.9	(4.1)	25.3	25.2
PBT	30.0	33.9	25.9	24.1
PAT	31.3	33.4	25.9	24.1
Customer loans (net)	26.3	28.5	30.1	24.7
Total Assets	21.4	22.1	26.0	22.6
RWA	20.6	33.9	26.5	22.8
Customer deposits	17.2	28.6	28.1	24.0
Ratios (%)				
NIM	4.31	4.43	4.45	4.40
Gross yield	8.31	9.01	9.76	9.90
Cost of funds	4.56	5.24	5.98	6.15
Spread	3.75	3.77	3.77	3.76
NPL/gross loans	1.43	1.15	0.94	0.83
Credit cost	1.7	1.2	1.1	1.1
Coverage	78.3	80.1	80.6	78.8
NPL/RWA	82.2	78.7	80.8	81.9
Provisions/RWA	1.2	0.9	0.8	0.7
Net write-off/RWA	-	-	-	-
NPL/NTE	8.5	7.6	6.9	6.5
Net loans/total assets	57.0	60.0	61.9	63.0
RWA/total assets	70.1	77.0	77.3	77.4
Loans/deposits	75.8	75.7	76.8	77.3
Avg IEA/avg total assets	95.9	96.3	96.4	96.5
Avg IBL/avg total liab	92.4	93.0	93.7	94.3
Cost/income	47.3	47.1	47.0	47.1
Non-int income/total income	17.3	17.4	17.9	17.9
ROAA (including goodwill)	1.45	1.59	1.61	1.62
ROAE (including goodwill)	16.3	17.0	18.5	19.5
Return on avg tier 1	17.1	17.6	19.0	20.1
Leverage (x)	11.2	10.7	11.5	12.1
Valuation data				
PE (diluted EPS)	32.1	25.0	19.8	16.0
P/PPOP	15.3	12.6	10.0	8.1
P/BVPS	4.6	4.0	3.4	2.9
P/NTE	4.6	4.0	3.4	2.9
Dividend yield (x)	0.6	0.7	0.7	0.7
P/Deposit	0.59	0.46	0.36	0.29
P/Asset	0.44	0.36	0.29	0.2

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

HCC, HCC IN, OW(V)

Ashutosh Narkar* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 22681474 ashutoshnarkar@hsbc.co.in	Target price (INR)	53	Index	Bombay SE Sensitive Index		
	Share price (INR)	42	Bloomberg	HCC IN		
	Potential return (%)	26.5				
	Performance	1M	3M	12M	Market cap (USDm)	558
	Absolute	-7.0	-33.8	-39.3	Free float (%)	60
	Relative (%)	-2.5	-30.3	-46.6		

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- Established in 1926, Hindustan Construction (HCC) is a mid-sized construction company with a leadership position in India's hydro power construction segment. A higher share of the order book (c51%) in long gestation nuclear and hydro power projects enables the company to earn a higher EBITDA margin of c13% vs peers' 9-10%.
- HCC, through its majority-owned (65%) subsidiary Lavasa Corporation Ltd, is developing Lavasa, one of the country's largest townships, near Pune (total area 12,500 acres). We maintain a conservative outlook on the company's plans to accelerate the project, given the long-term nature of developing large townships and the hurdles associated with construction. The project recently faced environment clearance issues, which are being contested by the management.

Key points

- While higher working capital requirements could have an impact on near-term execution, we believe working capital will peak during FY11 at 247 days (241 days in FY10 and 192 days in FY09). This should reduce pressure on leverage over FY11-13, allowing HCC to report a robust EPS CAGR of 45% over FY11-13e.
- While Lavasa could be penalized for carrying out development without prior approval, we don't think the issue will put the entire project at risk. Under a worst-case scenario in which the entire project is denied approval, we estimate the impact on HCC would be INR20 per share. Early resolution of the Lavasa issue could act as a key share price catalyst.

Valuation and risks

- We value HCC at INR53 using sum-of-the-parts, which includes construction business at INR22 (7x Sep 2012e EPS), real estate projects at INR12 and road assets at INR19. Our construction business valuation at a PE of 7x, is 30-45% lower than peers, which reflects HCC's weak balance sheet and delay risks on its long capex cycle-driven business model.
- Risks: Resolution of the Lavasa dispute and weaker than expected execution in its construction business owing to higher leverage (net debt equity at 1.9x as at end of 1HFY11) are key risks to our investment thesis.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	36,292	42,176	52,835	66,701	PE* (x)	13.1	23.3	17.1	11.2
EBITDA	4,522	5,548	6,660	8,392	EV/EBITDA (x)	9.9	8.7	7.2	6.2
EBIT	3,383	4,350	5,284	6,789	EV/Sales (x)	1.2	1.1	0.9	0.8
Net income	969	1,098	1,496	2,277	P/BV (x)	0.8	1.7	1.6	1.4
EPS (INR)	3.19	1.80	2.45	3.73					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Hindustan Construction

Overweight (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	36,292	42,176	52,835	66,701
EBITDA	4,522	5,548	6,660	8,392
Depreciation & amortisation	-1,139	-1,198	-1,376	-1,603
Operating profit/EBIT	3,383	4,350	5,284	6,789
Net interest	-2,052	-2,823	-3,093	-3,418
PBT	1,452	1,663	2,266	3,449
HSBC PBT	1,452	1,663	2,266	3,449
Taxation	-484	-565	-770	-1,172
Net profit	969	1,098	1,496	2,277
HSBC net profit	969	1,098	1,496	2,277

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	-4,364	-2,266	4,094	149
Capex	-1,238	-640	-2,843	-3,640
Cash flow from investment	-1,670	-2,640	-4,843	-4,640
Dividends	-284	-639	-710	-710
Change in net debt	1,585	5,877	1,459	5,201
FCF equity	-5,723	-3,042	1,176	-3,568

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	11,845	11,287	12,755	14,791
Current assets	46,242	51,953	56,158	63,997
Cash & others	1,883	1,036	1,077	877
Total assets	62,175	69,327	76,999	87,876
Operating liabilities	20,430	22,425	27,811	32,121
Gross debt	25,147	30,177	31,677	36,677
Net debt	23,264	29,141	30,600	35,800
Shareholders funds	15,172	14,995	16,084	17,651
Invested capital	35,775	39,779	40,024	45,791

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	9.5	16.2	25.3	26.2
EBITDA	4.8	22.7	20.0	26.0
Operating profit	7.0	28.6	21.5	28.5
PBT	-11.7	14.5	36.3	52.2
HSBC EPS	8.1	-43.7	36.3	52.2

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	1.1	1.1	1.3	1.6
ROIC	6.9	7.6	8.7	10.4
ROE	7.7	7.3	9.6	13.5
ROA	4.2	4.5	4.8	5.5
EBITDA margin	12.5	13.2	12.6	12.6
Operating profit margin	9.3	10.3	10.0	10.2
EBITDA/net interest (x)	2.2	2.0	2.2	2.5
Net debt/equity	153.3	194.3	190.2	202.8
Net debt/EBITDA (x)	5.1	5.3	4.6	4.3
CF from operations/net debt			13.4	0.4

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	3.15	1.80	2.45	3.73
HSBC EPS (diluted)	3.19	1.80	2.45	3.73
DPS	0.87	1.20	1.00	1.00
Book value	50.02	24.72	26.51	29.10

Valuation data

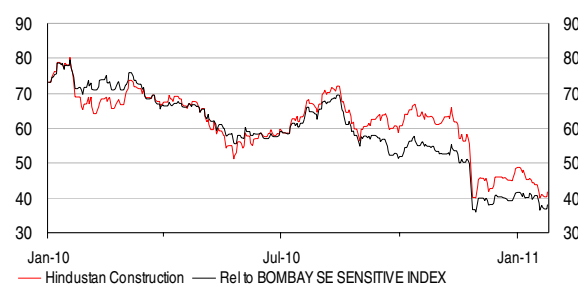
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	1.2	1.1	0.9	0.8
EV/EBITDA (x)	9.9	8.7	7.2	6.2
EV/IC (x)	1.2	1.2	1.2	1.1
PE* (x)	13.1	23.3	17.1	11.2
P/NAV (x)	0.8	1.7	1.6	1.4
FCF yield (%)	-26.8	-15.7	6.8	-21.9
Dividend yield (%)	2.1	2.9	2.4	2.4

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	41.90	Target price (INR)	53.00	Potent' l rtn (%)	26.5
Reuters (Equity)	HCNS.BO	Bloomberg (Equity)	HCC IN		
Market cap (USDm)	558	Market cap (INRm)	25,414		
Free float (%)	60	Enterprise value (INRm)	48,467		
Country	India	Sector	Construction & Engineering		
Analyst	Ashutosh Narkar	Contact	+91 22 2268 1474		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

HPCL, HPCL IN, UW

Kumar Manish* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 22681238 kmanish@hsbc.co.in	Target price (INR)	316			Index	Bombay SE Sensitive Index
	Share price (INR)	369.75			Bloomberg	HPCL IN
	Potential return (%)	-14.5				
	Performance	1M	3M	12M	Market cap (USDm)	2,748
	Absolute	-7.6	-25.9	5.1	Free float (%)	49
	Relative (%)	-3.0	-20.9	-8.5		

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Hindustan Petroleum is a government-owned oil marketing company engaged in refining and marketing oil products in India. It operates two refineries in Mumbai and Visakhapatnam with capacity of 130Mbb/d and 166Mbb/d, respectively. The company plans to start operations at its 180Mbb/d Bhatinda refinery, built with Mittal Energy, in Q1 2011.

Key points

- ▶ We believe that the oil marketing companies will continue to share a part of under-recoveries as the government is unlikely to allow full pass-through of increased oil prices to consumers.
- ▶ We expect regional refining margins of USD5-6/bbl from FY11 to FY13. The company is planning to set up a new coastal refinery in West Maharashtra (9MMt) in 2015 and is planning to expand it to 18MMt by 2020.

Valuation and risks

- ▶ We value HPCL at 9x core FY13e EPS, a 10% discount to peers, and the investments at INR316/share. We expect the FY11e, FY12e and FY13e EPS to be INR19.58, INR27 and INR28, respectively. The stock trades at a PE of 18.3x for FY11e and 13.3x for FY12e.
- ▶ Fuel price reforms are a key catalyst for the stock. However, we are cautious due to political issues related to deregulating diesel and cooking fuels.
- ▶ Other upside risks are materially higher refining margins, lower oil price and dollar exchange rates leading to lower under-recoveries.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	1,114,679	1,351,925	1,483,351	1,676,287	PE* (x)	8.2	18.3	13.3	12.8
EBITDA	34,696	21,864	37,981	49,528	EV/EBITDA (x)	7.5	14.3	8.3	6.1
EBIT	22,191	8,863	17,305	23,739	EV/sales (x)	0.2	0.2	0.2	0.2
Net income	14,752	6,630	9,130	9,479	P/BV (x)	1.0	1.0	0.9	0.9
EPS (INR)	43.56	19.58	26.96	27.99					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Hindustan Petroleum

Underweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	1,114,679	1,351,925	1,483,351	1,676,287
EBITDA	34,696	21,864	37,981	49,528
Depreciation & amortisation	-12,505	-13,001	-20,677	-25,789
Operating profit/EBIT	22,191	8,863	17,305	23,739
Net interest	2,005	1,493	-2,907	-7,937
PBT	24,195	10,356	14,398	15,801
HSBC PBT	24,195	10,356	14,398	15,801
Taxation	-9,443	-3,726	-4,766	-4,090
Net profit	14,752	6,630	9,130	9,479
HSBC net profit	14,752	6,630	9,130	9,479

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	25,106	8,325	30,784	34,453
Capex	-37,028	-58,391	-24,508	-6,700
Cash flow from investment	-48,336	-82,776	-24,508	-6,700
Dividends	-4,738	-1,717	-2,425	-1,964
Change in net debt	7,486	76,773	1,351	-13,149
FCF equity	-11,922	-50,066	6,277	27,753

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	251,600	297,851	307,168	298,440
Current assets	221,859	198,148	209,176	214,687
Cash & others	8,029	8,151	8,279	8,413
Total assets	569,640	616,565	636,909	633,692
Operating liabilities	163,119	131,002	141,669	144,460
Gross debt	243,364	320,259	321,737	308,723
Net debt	235,335	312,108	313,459	300,310
Shareholders funds	122,781	125,956	130,440	134,073
Invested capital	302,311	356,846	366,395	360,254

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	-13.6	21.3	9.7	13.0
EBITDA	6.2	-37.0	73.7	30.4
Operating profit	0.9	-60.1	95.3	37.2
PBT	139.1	-57.2	39.0	9.7
HSBC EPS	94.8	-55.1	37.7	3.8

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	4.1	4.1	4.1	4.6
ROIC	5.0	1.7	3.2	4.8
ROE	12.6	5.3	7.1	7.2
ROA	3.8	2.4	3.3	4.4
EBITDA margin	3.1	1.6	2.6	3.0
Operating profit margin	2.0	0.7	1.2	1.4
EBITDA/net interest (x)			13.1	6.2
Net debt/equity	191.7	247.8	240.3	224.0
Net debt/EBITDA (x)	6.8	14.3	8.3	6.1
CF from operations/net debt	10.7	2.7	9.8	11.5

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	43.56	19.58	26.96	27.99
HSBC EPS (diluted)	43.56	19.58	26.96	27.99
DPS	12.00	4.33	6.12	4.96
Book value	362.58	371.96	385.20	395.93

Valuation data

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	0.2	0.2	0.2	0.2
EV/EBITDA (x)	7.6	14.5	8.4	6.2
EV/IC (x)	0.9	0.9	0.9	0.8
PE* (x)	8.5	18.9	13.7	13.2
P/NAV (x)	1.0	1.0	1.0	0.9
FCF yield (%)	-41.1	-1076.5	135.0	596.7
Dividend yield (%)	3.2	1.2	1.7	1.3

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	369.75	Target price (INR)	316.00	Potent' l rtn (%)	-14.5
Reuters (Equity)	HPCL.BO	Bloomberg (Equity)	HPCL IN		
Market cap (USDm)	2,748	Market cap (INRm)	125,207		
Free float (%)	49	Enterprise value (INRm)	316,759		
Country	India	Sector	Oil & Gas		
Analyst	Kumar Manish	Contact	+91 22 2268 1238		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Hindustan Unilever, HUVR IN, UW

Percy Panthaki* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1240 percypanthaki@hsbc.co.in	Target price (INR)	287.00				Index	Bombay SE Sensitive Index
	Share price (INR)	297.95				Bloomberg	HUVR IN
	Potential return (%)	-3.7					
	Performance	1M	3M	12M		Market cap (USDm)	14,273
	Absolute	1.5	-2.7	16.1		Free float (%)	49
	Relative (%)	7.1	3.7	4.2			

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ HUL is the largest consumer staples (ex tobacco) company in India, with a top line of cUSD4.5bn and diversified product segments such as soaps, detergents, shampoo, oral care, skin care, tea, coffee and processed foods. Having a first mover advantage, HUL is the market leader in most of the segments it operates in, with market shares of c30-40%. HUL straddles the market (i.e. low, mid and premium end) across most of the categories it operates in. Recently, more premium end-products have been launched.

Key points

- ▶ Management focuses on competitively pricing products, increasing distribution reach, customising products and 'premium-ising' the product portfolio.
- ▶ However, there are a range of external pressures – food inflation depressing demand, cost inflation depressing margins and an intensely competitive environment.
- ▶ We believe the valuation is not taking these pressures into consideration; we expect more pain before bottom-line performance becomes satisfactory.

Valuation and risks

- ▶ Our target price of INR287 is based on 23x Sep-12e EPS. The multiple is a 10% discount to historical average on account of increased competitive activity affecting bottom line growth. Our FY13e EPS is INR13.4, which represents a 3-year (FY10-13e) CAGR of 12%. The stock is trading at 25.9x FY12e earnings.
- ▶ Upside risk: Benign input costs; price war subsides earlier; ability to raise prices to improve margins; and competition from MNCs in high growth categories lower than anticipated.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	177,643	192,833	213,406	236,922	PE* (x)	31.3	29.8	25.9	22.2
EBITDA	28,372	28,928	33,253	38,545	EV/EBITDA (x)	21.8	21.0	18.1	15.4
EBIT	26,453	26,877	31,097	36,154	EV/sales (x)	3.5	3.2	2.8	2.5
Net income	21,566	21,805	25,163	29,272	P/BV (x)	24.4	21.2	18.5	16.0
EPS (INR)	9.53	9.98	11.52	13.40					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Hindustan Unilever Ltd

Underweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	177,643	192,833	213,406	236,922
EBITDA	28,372	28,928	33,253	38,545
Depreciation & amortisation	-1,919	-2,051	-2,157	-2,391
Operating profit/EBIT	26,453	26,877	31,097	36,154
Net interest	557	1,537	1,692	1,861
PBT	27,799	28,414	32,788	38,015
HSBC PBT	27,009	28,414	32,788	38,015
Taxation	-6,153	-6,535	-7,541	-8,744
Net profit	21,566	21,805	25,163	29,272
HSBC net profit	20,821	21,805	25,163	29,272

Cash flow summary (INRm)

Cash flow from operations	37,186	26,866	30,153	34,712
Capex	-5,504	-1,139	-4,284	-4,906
Cash flow from investment	-14,082	-2,363	-5,631	-6,388
Dividends	-17,648	-16,551	-19,204	-22,257
Change in net debt	-5,716	-7,951	-5,318	-6,067
FCF equity	31,682	25,727	25,869	29,806

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	24,943	24,031	26,158	28,674
Current assets	55,393	66,820	75,867	86,096
Cash & others	20,124	28,075	33,393	39,460
Total assets	97,135	109,102	121,863	136,340
Operating liabilities	53,522	59,707	65,948	72,910
Gross debt	108	108	108	108
Net debt	-20,015	-27,966	-33,285	-39,352
Shareholders funds	26,689	30,663	35,250	40,585
Invested capital	2,170	-1,678	-2,300	-2,833

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	-13.3	8.6	10.7	11.0
EBITDA	-4.9	2.0	15.0	15.9
Operating profit	-5.0	1.6	15.7	16.3
PBT	-8.8	2.2	15.4	15.9
HSBC EPS	-14.9	4.7	15.4	16.3

Ratios (%)

Revenue/IC (x)	23.4	783.0	-107.3	-92.3
ROIC	271.6	8403.5	-1204.1	-1084.7
ROE	86.6	76.0	76.4	77.2
ROA	23.6	21.2	21.9	22.7
EBITDA margin	16.0	15.0	15.6	16.3
Operating profit margin	14.9	13.9	14.6	15.3
EBITDA/net interest (x)				
Net debt/equity	-74.7	-90.7	-93.7	-96.3
Net debt/EBITDA (x)	-0.7	-1.0	-1.0	-1.0
CF from operations/net debt				

Per share data (INR)

EPS Rep (diluted)	9.87	9.98	11.52	13.40
HSBC EPS (diluted)	9.53	9.98	11.52	13.40
DPS	6.50	7.00	8.08	9.40
Book value	12.22	14.04	16.14	18.58

Valuation data

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	3.5	3.2	2.8	2.5
EV/EBITDA (x)	21.8	21.0	18.1	15.4
EV/IC (x)	284.7			
PE* (x)	31.3	29.8	25.9	22.2
P/NAV (x)	24.4	21.2	18.5	16.0
FCF yield (%)	5.0	4.0	4.1	4.7
Dividend yield (%)	2.2	2.3	2.7	3.2

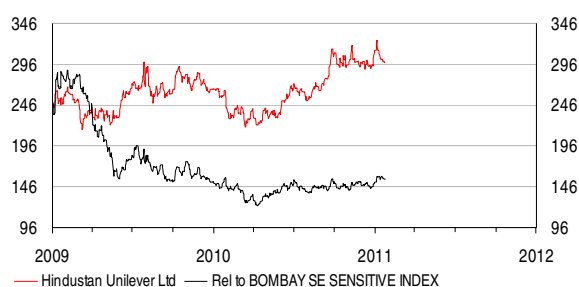
*Based on HSBC EPS (diluted)

Issuer information

Share price (INR) 297.95 Target price (INR) 287.00 Potent' l rtn (%) -3.7

Reuters (Equity)	HLL.BO	Bloomberg (Equity)	HUVR IN
Market cap (USDm)	14,273	Market cap (INRm)	650,222
Free float (%)	49	Enterprise value (INRm)	608,787
Country	India	Sector	Household Products
Analyst	Percy Panthaki	Contact	+9122 2268 1240

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

ICICI Bank, ICICIBC IN, OW

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	1,350 1,084 26	Index Bloomberg	Bombay SE Sensitive Index ICICIBC IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance Absolute Relative (%)	1M -3.1 1.6	3M -4.2 0.8	12M 28.9 13.5
			Market cap (USDm) Free float (%)	27,330 57

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ ICICI Bank is India's second-largest bank and largest private sector bank, with c6% market share of system loans.
- ▶ ICICI Bank and its subsidiaries offer a wide range of banking products and financial services to corporate and retail customers in the areas of commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking, treasury operations and asset management.
- ▶ The bank has a network of 2,514 branches and 5,808 ATMs in India, and has a presence in 19 countries.

Key points

- ▶ ICICI Bank has gone through 10 quarters of consolidation during which it focused on improving the business structurally by improving deposits and the loan book profile. The bank is now ready to embark on the next phase of growth.
- ▶ Healthy top-line growth, stable margins and lower loan loss provisions are expected to drive earnings' growth at 20-25% CAGR over FY11-13e, leading to ROA expanding to c1.5% vs. 1.1% average over the past 5 years and ROE improving to c12% from 8%.

Valuation and risks

- ▶ ICICI Bank is trading at 20x PE and 2x PB, which is below most private banks. We expect valuations to improve based on a better growth and profitability outlook and higher return ratios. We expect FY11-13e EPS CAGR at 21% and expect ROA to improve to 1.5% and ROE to 12%.
- ▶ We use a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%) to arrive at a target of INR1,350. With a better growth and profitability trajectory, we expect the stock to re-rate to 23x PE and 2.2x PB.
- ▶ Downside risks: Slowdown in loan growth and spike in NPLs.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	155,920	157,775	186,030	224,429	PE* (x)	30.0	23.7	19.9	16.6
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	97,322	92,439	108,615	130,867	EV/sales (x)	na	na	na	na
Net income	40,250	51,010	60,784	72,654	P/BV (x)	2.3	2.2	2.0	1.9
EPS (INR)	36.10	45.75	54.52	65.17					

*Based on HSBC EPS (diluted). Source: HSBC

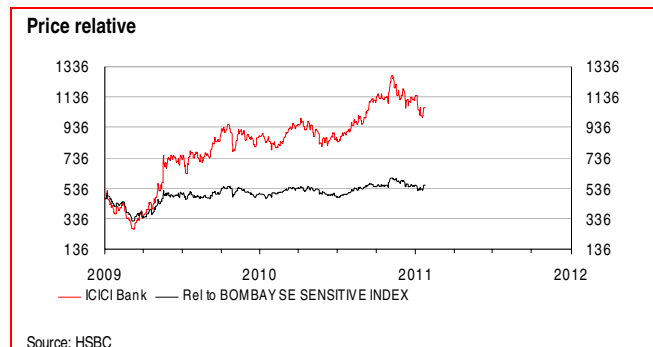
Financials & valuation: ICICI Bank

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary(INRm)				
Net Interest Income	81,144	87,921	105,398	126,059
Non-interest Income	74,777	69,854	80,633	98,370
Net fees/commission	48,308	51,907	59,939	73,514
Trading profits	9,157	5,725	6,601	17,085
Other	17,311	12,223	14,093	7,770
Total Operating income	155,920	157,775	186,030	224,429
Operating expense	58,598	65,336	77,415	93,561
Staff costs	19,258	26,034	32,553	37,487
Other oper expenses	39,340	39,302	44,862	56,074
PPOP	97,322	92,439	108,615	130,867
Provisions	43,899	25,677	25,917	32,044
Bad debt	43,622	25,065	24,946	30,075
Other	277	612	971	1,969
Other non-oper profit(loss)				
HSBC PBT	53,423	66,762	82,698	98,823
Exceptionals	-	-	-	-
Profit-before tax	53,423	66,762	82,698	98,823
Taxation	13,173	15,752	21,914	26,169
PAT	40,250	51,010	60,784	72,654
Minorities + pref dividend	-	-	-	-
Attributable profit	40,250	51,010	60,784	72,654
HSBC attributable profit	40,250	51,010	60,784	72,654
Balance sheet summary (INRm)				
Total assets	3,633,997	4,006,471	4,653,810	5,385,826
Customer loans (net)	1,812,056	2,180,780	2,614,347	3,151,485
Investment assets	1,208,928	1,258,407	1,399,672	1,546,092
Other assets	613,013	567,284	639,791	688,249
Total Liabilities	3,117,813	3,456,555	4,061,447	4,742,247
Customer deposits	2,020,166	2,196,583	2,655,567	3,183,793
Debt securities issued	942,636	1,049,462	1,156,803	1,271,053
Other liabilities	155,012	210,510	249,077	287,401
Total capital	516,184	549,916	592,363	643,579
Ordinary equity	516,184	549,916	592,363	643,579
Minorities + other capital				
IEA (avg)	3,377,534	3,493,142	3,969,725	4,616,460
IBL (avg)	3,061,578	3,131,696	3,556,889	4,161,704
Capital adequacy (%)				
RWA (INRm)	2,941,810	3,414,755	4,042,007	4,822,314
Core tier 1	14.00%	14.17%	12.73%	11.58%
Total tier 1	14.00%	14.17%	12.73%	11.58%
Total capital	19.4%	20.7%	18.3%	16.3%
Per share data (INR)				
EPS reported (fully diluted)	36.10	45.75	54.52	65.17
HSBC EPS (fully diluted)	36.1	45.8	54.5	65.2
DPS	12.0	13.5	14.5	16.0
NAV	463.0	493.2	531.3	577.3
NAV (including goodwill)	463.0	493.2	531.3	577.3
ROAA deconstruction				
Net interest income	2.19	2.30	2.43	2.51
Total interest income	6.92	6.64	7.10	7.27
Total interest expense	4.74	4.34	4.66	4.76
Net fees & commission	1.30	1.36	1.38	1.46
Other income	0.71	0.47	0.48	0.50
Operating income	4.20	4.13	4.30	4.47
Operating expenses	1.58	1.71	1.79	1.86
Staff costs	0.52	0.68	0.75	0.75
Other oper exp	1.06	1.03	1.04	1.12
PPOP	2.62	2.42	2.51	2.61
Provisions	1.18	0.67	0.60	0.64
Non-op items	-	-	-	-
PBT	1.44	1.75	1.91	1.97
Taxation	0.35	0.41	0.51	0.52
PAT	1.08	1.34	1.40	1.45

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (y-o-y %)				
Net interest income	(3.0)	8.4	19.9	19.6
Non-interest income	(1.7)	(6.6)	15.4	22.0
Operating expense	(16.8)	11.5	18.5	20.9
PPOP	9.0	(5.0)	17.5	20.5
Provisions	15.2	(41.5)	0.9	23.6
PBT	4.5	25.0	23.9	19.5
PAT	7.1	26.7	19.2	19.5
Customer loans (net)	(17.0)	20.3	19.9	20.5
Total Assets	(4.2)	10.2	16.2	15.7
RWA	(17.5)	16.1	18.4	19.3
Customer deposits	(7.5)	(7.5)	20.9	19.9
Ratios (%)				
NIM	2.40	2.52	2.66	2.73
Gross yield	7.61	7.26	7.74	7.91
Cost of funds	5.75	5.30	5.68	5.74
Spread	1.86	1.97	2.06	2.17
NPL/gross loans	5.1	4.5	4.1	3.7
Credit cost	2.2	1.3	1.0	1.0
Coverage	59.5	70.3	72.0	71.8
NPL/RWA	3.2	3.0	2.7	2.5
Provisions/RWA	1.9	2.1	2.0	1.8
Net write-off/RWA	-	-	-	-
NPL/NTE	18.4	18.5	18.5	18.7
Net loans/total assets	49.9	54.4	56.2	58.5
RWA/total assets	81.0	85.2	86.9	89.5
Loans/deposits	89.7	99.3	98.4	99.0
Avg IEA/avg total assets	91.0	91.4	91.7	92.0
Avg IBL/avg total liab	95.4	95.3	94.6	94.5
Cost/income	37.6	41.4	41.6	41.7
Non-int income/total income	48.0	44.3	43.3	43.8
ROAA (including goodwill)	1.08	1.34	1.40	1.45
ROAE (including goodwill)	8.0	9.6	10.6	11.8
Return on avg tier 1	9.3	11.1	12.4	13.6
Leverage (x)	7.3	7.2	7.6	8.1
Valuation data				
PE (diluted EPS)	30.0	23.7	19.9	16.6
P/PPOP	12.4	13.1	11.1	9.2
P/BVPS	2.3	2.2	2.0	1.9
P/NTE	2.3	2.2	2.0	1.9
Dividend yield (x)	1.1	1.2	1.3	1.5
P/Deposit	0.6	0.6	0.5	0.4
P/Asset	0.3	0.3	0.3	0.2

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

IndusInd Bank, IIB IN, OW

Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	400 239 68	Index Bloomberg	Bombay SE Sensitive Index IIB IN		
Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Performance Absolute Relative (%)	1M -4.7 -0.1	3M -13.0 -8.4	12M 58.5 39.5	Market cap (USDm) Free float (%)	2,438 57

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- IIB is one of the smaller new private sector banks in India, with a market share of just 0.6%. Until FY08, IIB faced tough times as it was not able to find the right business model and strategy to grow its business.
- Romesh Sobti (the current MD & CEO) and his new management team joined IIB in FY08 from ABN Amro Bank and played a critical role in the bank's transformation, led by workforce changes, CASA focus, stable loan book growth and improving asset quality, with significant improvement in performance across all business parameters.

Key points

- After a remarkable turnaround in FY09-10, the bank has now embarked on its second phase of growth from FY11 led by branch expansion, a focus on building a strong retail franchise to improve margins and diversifying the fee-income stream.
- This, along with steady loan book growth and lower credit cost at 0.75-0.8%, is expected to result in earnings CAGR of 36% over FY10-13e.

Valuation and risks

- IIB valuations have recently corrected from a peak of 19x FY12e EPS and 3.2x FY12e PB to its 5-year averages of 15x and 2.5x, respectively. However, we remain confident the bank will be able to surprise positively on earnings growth. With strong earnings momentum to continue, ROA should increase to 1.5% from 1.3% and ROE to 21% from 17%.
- We value IIB using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). We expect PE and PB to rise to 24x and 3x, respectively.
- Downside risks: Stability of the top management, growth and expansion targets not being met, higher than expected slippages and credit costs.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	14,399	19,764	26,466	34,916	PE* (x)	28.0	21.1	15.2	11.1
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	7,039	9,862	13,257	17,738	EV/sales (x)	na	na	na	na
Net income	3,503	5,200	7,236	9,871	P/BV (x)	4.5	2.9	2.5	2.1
EPS (INR)	8.5	11.3	15.7	21.4					

*Based on HSBC EPS (diluted). Source: HSBC

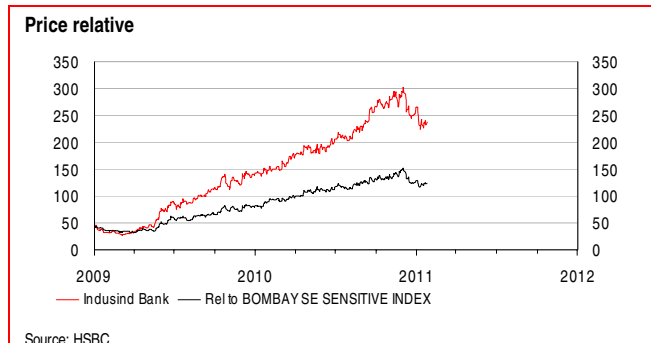
Financials & valuation: IndusInd Bank

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary (INRm)				
Net Interest Income	8,864	13,125	17,897	23,813
Non-interest Income	5,535	6,639	8,568	11,103
Net fees/commission	1,936	2,417	3,350	4,620
Trading profits	1,110	666	700	769
Other	2,489	3,556	4,519	5,713
Total Operating income	14,399	19,764	26,466	34,916
Operating expenses	7,360	9,903	13,209	17,179
Staff costs	2,906	4,143	5,851	7,923
Other oper expense	4,454	5,759	7,358	9,256
PPOP	7,039	9,862	13,257	17,738
Provisions	1,708	1,983	2,293	2,781
Bad debt	1,523	1,833	2,218	2,681
Other	186	150	75	100
Other non-oper profit(loss)				
HSBC PBT	5,331	7,879	10,964	14,957
Exceptionals	-	-	-	-
Profit-before tax	5,331	7,879	10,964	14,957
Taxation	1,827	2,679	3,728	5,085
PAT	3,503	5,200	7,236	9,871
Minorities + pref dividend	-	-	-	-
Attributable profit	3,503	5,200	7,236	9,871
HSBC attributable profit	3,503	5,200	7,236	9,871
Balance sheet summary (INRm)				
Total assets	353,695	451,937	578,786	741,272
Customer loans (net)	205,506	268,943	349,447	454,022
Investment assets	104,018	126,042	159,160	200,827
Other assets	44,171	56,952	70,179	86,422
Total Liabilities	316,583	397,521	516,635	669,180
Customer deposits	267,102	340,240	445,257	579,688
Borrowings	36,203	43,443	52,132	62,559
Other liabilities	13,278	13,838	19,246	26,933
Total capital	21,656	38,006	43,787	51,772
Ordinary equity	21,656	38,006	43,787	51,772
Minorities + other capital				
IEA (avg)	294,920	382,849	493,268	635,154
IBL (avg)	271,486	343,494	440,536	569,818
Capital adequacy (%)				
RWA (INRm)	226,231	289,316	393,969	512,654
Core tier 1	9.6%	13.1%	11.1%	10.1%
Total tier 1	9.6%	13.1%	11.1%	10.1%
Total capital	15.1%	18.1%	15.2%	13.6%
Per share data (INR)				
EPS reported (diluted)	8.5	11.3	15.7	21.4
HSBC EPS (diluted)	8.5	11.3	15.7	21.4
DPS	1.8	2.0	2.7	3.5
NAV	52.7	82.5	95.1	112.4
NAV (including goodwill)	52.7	82.5	95.1	112.4
RoAA deconstruction				
Net interest income	2.81	3.26	3.47	3.61
Total interest income	8.60	8.57	8.79	8.96
Total interest expense	5.78	5.31	5.32	5.35
Net fees & commission	0.88	0.87	0.93	0.98
Other income	0.87	0.78	0.73	0.70
Operating income	4.57	4.91	5.14	5.29
Operating expenses	2.34	2.46	2.56	2.60
Staff costs	0.92	1.03	1.14	1.20
Other oper exp	1.41	1.43	1.43	1.40
PPOP	2.24	2.45	2.57	2.69
Provisions	0.54	0.49	0.44	0.42
Non-op items	-	-	-	-
PBT	1.69	1.96	2.13	2.27
Taxation	0.58	0.67	0.72	0.77
PAT	1.11	1.29	1.40	1.50

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (y-o-y %)				
Net interest income	93.1	48.1	36.4	33.1
Non-interest income	21.3	20.0	29.1	29.6
Operating expense	34.5	34.5	33.4	30.1
PPOP	91.1	40.1	34.4	33.8
Provisions	21.4	16.0	15.7	21.3
PBT	134.3	47.8	39.2	36.4
PAT	136.2	48.4	39.2	36.4
Customer loans (net)	30.3	30.9	29.9	29.9
Total assets	28.1	27.8	28.1	28.1
RWA	18.9	46.6	27.6	32.8
Customer deposits	20.8	27.4	30.9	30.2
Ratios (%)				
NIM	3.01	3.43	3.63	3.75
Gross yield	9.18	9.01	9.18	9.31
Cost of funds	6.71	6.23	6.22	6.20
Spread	2.47	2.79	2.96	3.11
NPL/gross loans	1.2	1.2	1.3	1.4
Credit cost	0.84	0.77	0.72	0.67
Coverage	60.1	70.0	70.0	70.0
NPL/RWA	1.1	1.0	1.1	1.1
Provisions/RWA	0.7	0.7	0.8	0.8
Net write-off/RWA	-	-	-	-
NPL/NTE	11.8	8.6	10.3	12.0
Net loans/total assets	58.1	59.5	60.4	61.2
RWA/total assets	63.3	72.7	72.4	75.1
Loans/deposits	76.9	79.0	78.5	78.3
Avg IEA/avg total assets	93.6	95.0	95.7	96.2
Avg IBL/avg total liab	86.2	85.3	85.5	86.3
Cost/income	51.1	50.1	49.9	49.2
Non-int income/total income	38.4	33.6	32.4	31.8
RoAA (including goodwill)	1.11	1.29	1.40	1.50
RoAE (including goodwill)	19.5	17.4	17.7	20.7
Return on avg tier 1	19.5	17.4	17.7	20.7
Leverage (x)	17.5	13.5	12.6	13.8
Valuation data				
PE (diluted EPS)	28.0	21.1	15.2	11.1
P/PPOP	13.9	11.1	8.3	6.2
P/BVPS	4.5	2.9	2.5	2.1
P/NTE	4.5	2.9	2.5	2.1
Dividend yield (x)	0.8	0.8	1.1	1.5
P/Deposit	0.4	0.3	0.2	0.2
P/Asset	0.3	0.2	0.2	0.1

*Based on HSBC EPS (diluted)



Note: price at close of 24 Jan 2011

Infosys, INFO IN, OW

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	3830 3284 16.6	Index Bloomberg	Bombay SE Sensitive Index INFO IN
Atul Agrawal* Associate Bangalore	Performance Absolute Relative (%)	1M -2.7 2	3M 7.4 13.1	12M 27.4 12.2
			Market cap (USDm) Free float (%)	41,395 78

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ Infosys is India's second largest IT Services company, catering to a diverse set of global and regional clients.
- ▶ It pioneered the Global Delivery Model (GDM), which was later adopted by global majors like Accenture and IBM.

Key points

- ▶ Infosys is a likely beneficiary of continued demand in the banking and financial services sector (BFSI) and our expectation of a likely uptick in the telecom market.
- ▶ Furthermore, early signs of revival in the enterprise software market (SAP) are visible and with a lag of 2-3 quarters should flow through to boost Infosys revenues.
- ▶ We expect EBITDA margins to remain stable in FY12 as employee pyramid benefits and non-linear growth offset wage inflation pressure.

Valuation and risks

- ▶ We value Infosys at a PE of around 22x on our CY12e EPS at INR3,830. We use this target multiple because historically the stock has traded at a seven-year average 12-month forward earnings multiple of c22x.
- ▶ We expect stock returns to be in line with earnings growth. We see modest upside risk to FY12 EPS estimates and find valuations in-line with the historical range. Infosys has a PEG of 0.95x compared to a 5-yr average of 1.1x. Only 40% of the time in the past five years has the stock has traded at a lower PEG ratio.
- ▶ **Risks:** 1) INR appreciation vs. USD (1% appreciation affects margins by 30-40bps) remains a big concern with foreign inflows into India increasing steadily; 2) deterioration in macro economic conditions.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	227,420	278,092	349,692	422,224	PE* (x)	29.9	26.8	21.2	17.4
EBITDA	78,610	92,653	117,092	141,769	EV/EBITDA (x)	22.2	18.5	14.3	11.6
EBIT	69,560	83,884	104,852	125,725	EV/sales (x)	7.7	6.2	4.8	3.9
Net income	62,660	69,984	88,613	107,711	P/BV (x)	15.7	14.3	16.0	16.1
EPS (INR)	109.72	122.49	155.10	188.53					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Infosys Technologies

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	227,420	278,092	349,692	422,224
EBITDA	78,610	92,653	117,092	141,769
Depreciation & amortisation	-9,050	-8,769	-12,239	-16,045
Operating profit/EBIT	69,560	83,884	104,852	125,725
Net interest	9,610	11,000	14,000	16,000
PBT	79,470	94,884	118,852	141,725
HSBC PBT	79,470	94,884	118,852	141,725
Taxation	-16,810	-24,900	-30,239	-34,014
Net profit	62,660	69,984	88,613	107,711
HSBC net profit	62,660	69,984	88,613	107,711

Cash flow summary (INRm)

Cash flow from operations	62,040	68,521	92,736	116,400
Capex	-6,750	-13,905	-17,485	-21,111
Cash flow from investment	-1,909	10,530	-17,485	-21,111
Dividends	-15,740	-36,421	-51,839	-63,011
Change in net debt	-45,730	-32,496	-40,353	-31,968
FCF equity	64,260	46,945	70,617	89,727

Balance sheet summary (INRm)

Intangible fixed assets	8,850	8,760	8,760	8,760
Tangible fixed assets	44,390	49,526	54,771	59,838
Current assets	209,280	243,300	279,153	324,037
Cash & others	142,680	175,176	215,529	247,497
Total assets	276,120	316,275	357,374	407,325
Operating liabilities	5,310	5,970	5,970	5,970
Gross debt	0	0	0	0
Net debt	-142,680	-175,176	-215,529	-247,497
Shareholders funds	240,730	272,733	309,198	353,588
Invested capital	114,530	120,439	121,185	139,169

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	4.8	22.3	25.7	20.7
EBITDA	9.3	17.9	26.4	21.1
Operating profit	8.1	20.6	25.0	19.9
PBT	15.1	19.4	25.3	19.2
HSBC EPS	5.1	11.6	26.6	21.6

Ratios (%)

Revenue/IC (x)	4.0	2.4	2.9	3.2
ROIC	95.8	52.7	64.7	73.4
ROE	52.1	27.3	30.5	32.5
ROA	45.4	23.6	26.3	28.2
EBITDA margin	34.6	33.3	33.5	33.6
Operating profit margin	30.6	30.2	30.0	29.8
EBITDA/net interest (x)				
Net debt/equity	-59.3	-64.2	-69.7	-70.0
Net debt/EBITDA (x)	-1.8	-1.9	-1.8	-1.7
CF from operations/net debt				

Per share data (INR)

EPS Rep (diluted)	109.72	122.49	155.10	188.53
HSBC EPS (diluted)	109.72	122.49	155.10	188.53
DPS	25.00	24.50	77.59	94.31
Book value	209.82	230.31	205.60	204.29

Valuation data

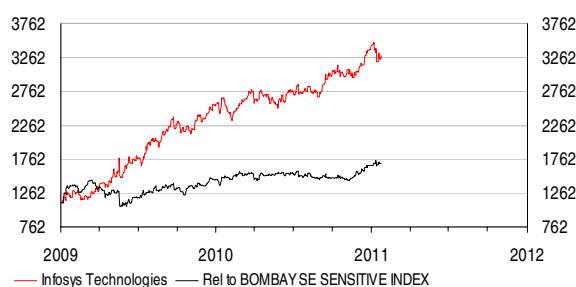
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	7.7	6.2	4.8	3.9
EV/EBITDA (x)	22.2	18.5	14.3	11.6
EV/IC (x)	15.2	14.2	13.8	11.8
PE* (x)	29.9	26.8	21.2	17.4
P/NAV (x)	15.7	14.3	16.0	16.1
FCF yield (%)	3.4	2.5	3.7	4.8
Dividend yield (%)	0.8	0.7	2.4	2.9

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	3284.65	Target price (INR)	3830.00	Potent' l rtn (%)	16.6
Reuters (Equity)	INFY.BO	Bloomberg (Equity)	INFO IN		
Market cap (USDm)	41,395	Market cap (INRm)	1,885,815		
Free float (%)	78	Enterprise value (INRm)	1,710,639		
Country	India	Sector	It Services		
Analyst	Yogesh Aggarwal	Contact	+91 22 2268 1246		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

IRB Infrastructure Ltd, IRB IN, OW(V)

Ashutosh Narkar* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1474 ashutoshnarkar@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	355 214 65.8	Index Bloomberg	Bombay SE Sensitive Index IRB IN
	Performance	1M 3M 12M	Market cap (USDm)	1,562
	Absolute	-2.4 -13.0 -15.0	Free float (%)	26
	Relative (%)	2.3 -8.4 -25.2		

Note: Price at close of 24 January 2011. Source: HSBC
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- Established in 1977, IRB provides investors with a focused play on India's road sector. The company is the market leader with the largest portfolio of operational toll assets (771kms) in India and has a total portfolio of 1,154km across 16 projects with a cumulative contract value of INR101bn (USD2.1bn).
- IRB's project portfolio has several large assets, such as the Mumbai-Pune (206km), Mumbai-Surat-Baruch (304km), Jaipur-Deoli (149km) and Amritsar-Pathankot (102km).
- IRB's integrated business model allows the company to capture the entire asset value in house. Construction business contributes c60% of revenues (EBITDA margin of 24 %), while the rest comes from toll income (EBITDA margin of 85%).

Key points

- The government's renewed focus on building highways will generate cINR3trn (USD65bn) worth of business over the next 7-10 years. In the near term (FY10-14), this should amount to INR1.8trn (USD40bn). We estimate IRB to capture a c6.5% share (USD2.6bn) of this highly fragmented market.
- We expect IRB to report FY11-13 earnings CAGR of c18%, driven primarily by four road contracts that the company has won in the last 12 months and revenue from two recently operational toll roads.

Valuation and risks

- We value IRB at INR355 using a sum-of-the-parts approach, of which existing projects contribute INR143, construction business INR157, other businesses INR11, along with a terminal value at INR44.
- Sharper rise in interest rates, weaker-than-estimated traffic growth, lower-than-estimated success in future project bids, and slower-than-expected project execution are key risks to our investment thesis.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	16,961	29,684	46,174	60,492	PE*	18.4	15.5	12.6	11.2
EBITDA	7,990	11,575	15,227	17,790	EV/EBITDA	11.9	9.2	8.8	8.5
EBIT	6,171	9,376	11,774	13,157	EV/Sales	5.6	3.6	2.9	2.5
Net income	3,864	4,581	5,637	6,342	P/BV	3.5	3.0	2.5	2.1
EPS (INR)	11.63	13.78	16.96	19.08					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: IRB Infrastructure Ltd

Overweight (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	16,961	29,684	46,174	60,492
EBITDA	7,990	11,575	15,227	17,790
Depreciation & amortisation	-1,819	-2,199	-3,454	-4,633
Operating profit/EBIT	6,171	9,376	11,774	13,157
Net interest	-2,494	-3,420	-4,563	-4,866
PBT	4,167	6,497	7,844	9,024
HSBC PBT	4,167	6,497	7,844	9,024
Taxation	-133	-1,736	-2,138	-2,716
Net profit	3,864	4,581	5,637	6,342
HSBC net profit	3,864	4,581	5,637	6,342

Cash flow summary (INRm)

Cash flow from operations	5,498	5,428	6,350	7,318
Capex	-9,675	-18,460	-35,221	-26,898
Cash flow from investment	-9,185	-17,919	-34,587	-26,166
Dividends	784	980	1,177	1,177
Change in net debt	4,032	11,603	27,340	17,376
FCF equity	-4,177	-13,032	-28,871	-19,580

Balance sheet summary (INRm)

Intangible fixed assets	39,301	53,843	82,283	102,092
Tangible fixed assets	3,262	4,981	8,308	10,765
Current assets	15,372	19,684	15,942	16,357
Cash & others	8,359	11,860	5,294	3,275
Total assets	57,976	78,550	106,575	129,255
Operating liabilities	2,544	3,514	5,916	8,099
Gross debt	32,036	47,139	67,914	83,271
Net debt	23,677	35,279	62,619	79,995
Shareholders funds	20,508	24,060	28,387	33,518
Invested capital	47,032	63,134	95,323	117,839

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	71.0	75.0	55.5	31.0
EBITDA	82.7	44.9	31.6	16.8
Operating profit	91.1	51.9	25.6	11.8
PBT	93.9	55.9	20.7	15.0
HSBC EPS	119.8	18.5	23.1	12.5

Ratios (%)

Revenue/IC (x)	0.4	0.5	0.6	0.6
ROIC	13.8	12.5	10.8	8.6
ROE	20.4	20.6	21.5	20.5
ROA	12.4	10.6	9.8	8.2
EBITDA margin	47.1	39.0	33.0	29.4
Operating profit margin	36.4	31.6	25.5	21.8
EBITDA/net interest (x)	3.2	3.4	3.3	3.7
Net debt/equity	110.4	139.1	210.0	229.3
Net debt/EBITDA (x)	3.0	3.0	4.1	4.5
CF from operations/net debt	23.2	15.4	10.1	9.1

Per share data (INR)

EPS Rep (diluted)	11.63	13.78	16.96	19.08
HSBC EPS (diluted)	11.63	13.78	16.96	19.08
DPS	2.00	2.50	3.00	3.00
Book value	61.70	72.39	85.41	100.85

Valuation data

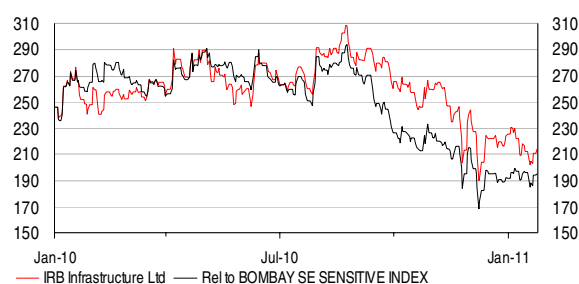
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	5.6	3.6	2.9	2.5
EV/EBITDA (x)	11.9	9.2	8.8	8.5
EV/IC (x)	2.0	1.7	1.4	1.3
PE* (x)	18.4	15.5	12.6	11.2
P/NAV (x)	3.5	3.0	2.5	2.1
FCF yield (%)	-5.9	-18.3	-40.6	-27.5
Dividend yield (%)	0.9	1.2	1.4	1.4

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	214.05	Target price (INR)	355.00	Potent' l rtn (%)	65.8
Reuters (Equity)	IRBI.BO	Bloomberg (Equity)	IRB IN		
Market cap (USDm)	1,562	Market cap (INRm)	71,143		
Free float (%)	26	Enterprise value (INRm)	106,380		
Country	India	Sector	Construction & Engineering		
Analyst	Ashutosh Narkar	Contact	+91 22 2268 1474		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

ITC, ITC IN, N

Percy Panthaki* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1240 percypanthaki@hsbc.co.in	Target price (INR)	180.00			Index	Bombay SE Sensitive Index
	Share price (INR)	169.10			Bloomberg	ITC IN
	Potential return (%)	6.4				
	Performance	1M	3M	12M	Market cap (USDm)	28,603
	Absolute	1.05	-3.1	40.8	Free float (%)	70
	Relative (%)	6.6	3.3	26.3		

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ ITC is the largest consumer conglomerate in India with interests in businesses such as cigarettes, consumer staples, hotels, agribusiness and paper. While about half of the top line is attributed to the cigarettes division, c80% of the operating profits comes from this division. ITC has market leadership, with c70% volume and c80% value market share in this segment. The consumer staples segment is relatively new and has not yet broken even as it is in investment mode. The other businesses, such as agri and paper, which were low margin and low ROIC, have improved significantly over last 1-2 years and now have remunerative return ratios.

Key points

- ▶ The budget expected at end Feb will determine the size of tax increase for cigarettes and is likely to determine sentiment on the stock. However, ITC has a good track record of maintaining EBIT growth on cigarettes segment at c15% irrespective of tax.
- ▶ Consumer staples losses are coming down and we are not unduly worried as the business is still at an early stage. Hotels is turning around on the back of increases in ARR and occupancy as the global economy recovers from the recession

Valuation and risks

- ▶ The stock is trading at 22.3x FY12e earnings. Our target price of INR180 is derived on a SOTP basis. All divisions use our estimated forward PE multiple on Sep-2012e EPS. 1) cigarettes INR138, at 22x, in line with global peers, adjusting for higher growth and better ROE; 2) hotels INR8, at 20x; 3) Agribusiness INR3, at 6x; 4) paperboards INR5, at 5x; 5) FMCG others, INR16, at 2.0x and cash at INR10/share. Our FY13e EPS is INR8.76, which represents a 3-year (FY10-13e) CAGR of 17.1%.
- ▶ **Upside risk:** Cigarette volume growth higher than expected; further price hike in cigarettes; pick up in tourism improving hotel room rates and occupancy. **Downside risk:** Volume backlash to price increase higher than anticipated; increased losses in FMCG business; PE multiple contraction in the event of significant economic downturn.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010a	2011e	2012e	2013e
Revenue	191359	221528	251040	287699	PE* (x)	31.0	25.8	22.3	19.3
EBITDA	63243	73206	83378	97503	EV/EBITDA (x)	19.6	16.8	14.4	11.9
EBIT	56804	66911	77055	91137	EV/sales (x)	6.5	5.6	4.8	4.0
Net income	41682	50152	57979	67001	P/BV (x)	4.4	3.8	3.3	2.9
EPS (INR)	5.45	6.56	7.58	8.76					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: ITC

Neutral

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	191,359	221,528	251,040	287,699
EBITDA	63,243	73,206	83,378	97,503
Depreciation & amortisation	-6,439	-6,295	-6,323	-6,367
Operating profit/EBIT	56,804	66,911	77,055	91,137
Net interest	-536	-536	-536	-536
PBT	62,520	74,126	85,695	99,031
HSBC PBT	62,520	74,008	85,561	98,877
Taxation	-20,349	-23,386	-27,037	-31,245
Net profit	41,682	50,152	57,979	67,001
HSBC net profit	41,682	50,152	57,979	67,001

Cash flow summary (INRm)

Cash flow from operations	44,431	52,487	62,396	73,144
Capex	-12,534	205	-610	-974
Cash flow from investment	-33,464	-8,119	-10,599	-10,563
Dividends	-16,866	-44,523	-28,077	-32,459
Change in net debt	-1,076	-37	-23,943	-30,379
FCF equity	28,941	45,528	53,289	64,525

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	97,976	91,476	85,763	80,370
Current assets	90,016	103,282	136,655	176,886
Cash & others	13,486	13,503	37,426	67,785
Total assets	237,999	253,090	290,738	335,166
Operating liabilities	37,371	45,421	50,587	55,665
Gross debt	1,108	1,088	1,068	1,048
Net debt	-12,378	-12,415	-36,358	-66,737
Shareholders funds	144,583	166,658	192,178	221,669
Invested capital	137,135	135,834	134,405	133,806

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	15.6	15.8	13.3	14.6
EBITDA	24.7	15.8	13.9	16.9
Operating profit	26.5	17.8	15.2	18.3
PBT	25.3	18.6	15.6	15.6
HSBC EPS	23.7	20.3	15.6	15.6

Ratios (%)

Revenue/IC (x)	1.4	1.6	1.9	2.1
ROIC	27.3	32.0	37.2	44.8
ROE	29.3	32.2	32.3	32.4
ROA	19.4	20.8	21.7	21.8
EBITDA margin	33.0	33.0	33.2	33.9
Operating profit margin	29.7	30.2	30.7	31.7
EBITDA/net interest (x)	118.0	136.6	155.6	181.9
Net debt/equity	-8.5	-7.4	-18.8	-29.8
Net debt/EBITDA (x)	-0.2	-0.2	-0.4	-0.7
CF from operations/net debt				

Per share data (INR)

EPS Rep (fully diluted)	5.45	6.56	7.58	8.76
HSBC EPS (fully diluted)	5.45	6.56	7.58	8.76
DPS	4.99	3.15	3.64	4.20
Book value	38.29	44.14	50.90	58.71

Valuation data

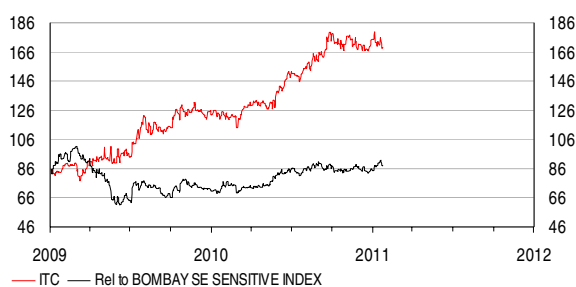
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	6.5	5.6	4.8	4.0
EV/EBITDA	19.6	16.8	14.4	11.9
EV/IC	9.0	9.1	8.9	8.7
PE*	31.0	25.8	22.3	19.3
P/Book value	4.4	3.8	3.3	2.9
FCF yield (%)	2.3	3.7	4.3	5.3
Dividend yield (%)	3.0	1.9	2.2	2.5

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	169.10	Target price (INR)	180.00	Potent'l return (%)	6.4
Reuters (Equity)	ITC.BO	Bloomberg (Equity)	ITC IN		
Market cap (USDm)	28,603	Market cap (INRm)	1,303,076		
Free float (%)	70	Enterprise value (INRm)	1,232,331		
Country	India	Sector	Tobacco		
Analyst	Percy Panthaki	Contact	+91 22 2268 1240		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

Jet Airways, JETIN IN, OW(V)

Mark Webb* Analyst The Hongkong and Shanghai Banking Corporation Limited +852 2996 8574 markwebb@hsbc.com.hk	Target price (INR) Share price (INR) Potential return (%)	1000 610 64	Index Bloomberg	Bombay SE Sensitive Index JETIN IN
Rajani Khetan* Associate Bangalore	Performance Absolute Relative (%)	1M -13.3 -8.5	3M -22.3 -17.5	12M 17.7 4.4
			Market cap (USDm) Free float (%)	1,157 20

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ Jet Airways is a full service Indian airline flying to more than 65 destinations across India and abroad. It operates a fleet of 90 aircraft.
- ▶ Jetlite, its low cost subsidiary is an all-economy, no-frills airline; operates a fleet of 18 aircraft and flies to 25 domestic and two international destinations. Jet Airways Konnect, a brand within Jet Airways, is a domestic service introduced in 2009.
- ▶ The group is the largest domestic airline with more than one-quarter market share. Jet is also the best Indian airline brand that offers wide international connectivity.

Key points

- ▶ Cyclical recovery in aviation suggests strong growth outlook; industry discipline to help sustain yield increases.
- ▶ Domestically, Jet best placed to enjoy Indian growth, given its strong brand, wide network and a large market share.
- ▶ Internationally, most routes have achieved break even and high loads on these routes will favour yield increases.

Valuation and risks

- ▶ We value Jet using FY11e multiples of Cathay Pacific and Air China, as well as its own 2005-07 PB trading range. We set the fair value of Jet at the mid-point of the range. Our target price is INR1,000.
- ▶ Key risks are fuel price spikes and US dollar strength.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	118,764	149,203	160,469	172,644	PE* (x)	NA	13.4	6.3	4.2
EBITDAR	22,214	33,411	37,498	40,743	EV/EBITDA (x)	11.7	7.7	6.5	5.7
EBIT	933	12,249	15,393	18,301	EV/sales (x)	2.2	1.7	1.5	1.3
Net income	-4,202	4,261	8,430	12,592	P/BV (x)	3.0	2.4	1.8	1.2
EPS (INR)	-48.7	49.4	97.6	145.8					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Jet Airways

Overweight (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	118,764	149,203	160,469	172,644
EBITDA	10,623	21,554	24,778	27,734
Depreciation & amortisation	-9,691	-9,305	-9,385	-9,434
Operating profit/EBIT	933	12,249	15,393	18,301
Net interest	-9,959	-10,379	-9,200	-8,113
PBT	-4,098	4,275	8,455	12,628
HSBC PBT	-6,597	3,943	8,455	12,628
Taxation	-104	-13	-25	-36
Net profit	-4,202	4,261	8,430	12,592
HSBC net profit	-6,764	3,930	8,430	12,592
Cash flow summary (INRm)				
Cash flow from operations	2,091	11,976	16,207	20,421
Capex	8,705	-1,170	-5,827	-14,429
Cash flow from investment	-11,566	-10,628	-20,958	-29,649
Dividends	0	0	0	0
Change in net debt	-14,050	-16,528	-11,403	-11,787
FCF equity	12,171	10,806	10,380	5,992

Balance sheet summary (INRm)

Intangible fixed assets	18,724	18,724	18,724	18,724
Tangible fixed assets	144,552	136,417	132,858	137,854
Current assets	40,063	48,058	47,062	41,888
Cash & others	9,264	13,224	10,735	3,948
Total assets	206,674	207,569	204,146	205,188
Operating liabilities	44,580	49,636	51,783	54,233
Gross debt	228,731	216,163	202,271	183,696
Net debt	219,467	202,939	191,535	179,749
Shareholders funds	17,295	21,557	29,987	42,578
Invested capital	236,764	224,497	221,523	222,328

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	-9.2	25.6	7.6	7.6
EBITDA		102.9	15.0	11.9
Operating profit		1213.5	25.7	18.9
PBT			97.8	49.4
HSBC EPS			114.5	49.4

Ratios (%)

Revenue/IC (x)	0.5	0.6	0.7	0.8
ROIC	2.7	7.7	9.6	11.0
ROE	-34.5	20.2	32.7	34.7
ROA	2.7	7.1	8.6	10.1
EBITDA margin	8.9	14.4	15.4	16.1
Operating profit margin	0.8	8.2	9.6	10.6
EBITDA/net interest (x)	1.1	2.1	2.7	3.4
Net debt/equity	1268.9	941.4	638.7	422.2
Net debt/EBITDA (x)	20.7	9.4	7.7	6.5
CF from operations/net debt	1.0	5.9	8.5	11.4

Per share data (INR)

EPS Rep (fully diluted)	-48.66	49.35	97.63	145.83
HSBC EPS (fully diluted)	-78.34	45.52	97.63	145.83
DPS	0.00	0.00	0.00	0.00
Book value	200.31	249.66	347.29	493.12

Key forecast drivers

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Capacity growth (ATK)				
Overall (ATK)	-10%	14%	6%	6%
Passenger (ASK)	-8%	15%	5%	6%
Cargo (FATK)	-12%	13%	6%	6%
Traffic growth (%)				
Overall (RTK)	7%	18%	6%	7%
Passenger (RPK)	5%	19%	6%	6%
Cargo (FTK)	13%	18%	8%	7%
Load factor (%)				
Overall (RTK/ATK)	63%	65%	66%	66%
Passenger (RPK/ASK)	77%	80%	80%	80%
Cargo (FTK/FATK)	40%	42%	43%	43%
Break-even load factor	68%	65%	64%	63%
Change in yields and unit costs				
Overall (INR/RTK)	-19%	6%	3%	2%
Passenger (INR/RPK)	-18%	5%	3%	2%
Cargo (INR/FTK)	-18%	20%	2%	1%
Unit costs (INR/ATK)	-12%	2%	0%	0%
Spot jet fuel price (USD/bbl)	75	90	95	95

Valuation data

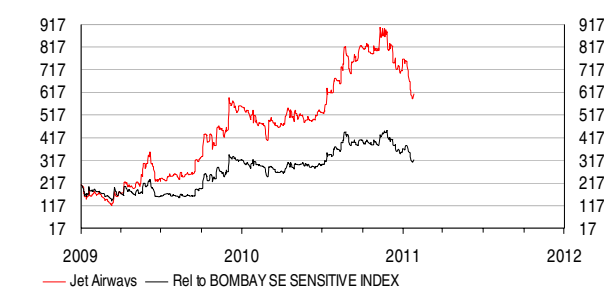
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	2.2	1.7	1.5	1.3
EV/EBITDA	11.7	7.7	6.5	5.7
EV/IC	1.1	1.1	1.1	1.0
PE*	-7.8	13.4	6.3	4.2
P/Book value	3.0	2.4	1.8	1.2
REP**	3.7	1.4	1.1	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0

Note: * = Based on HSBC EPS (fully diluted); **EV/IC divided by ROIC/WACC

Issuer information

Share price (INR)	610.45	Target price (INR)	1000	Potentl return (%)	63.8
Reuters (Equity)	JET.BO	Bloomberg (Equity)	JETIN IN		
Market cap (USDm)	1,157	Market cap (INRm)	52,703		
Free float (%)	20	Enterprise value (INRm)	255,641		
Country	India	Sector	Airlines		
Analyst	Mark Webb	Contact	+852 2996 6574		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

JSW Steel, JSTL IN, N(V)

Jigar Mistry*, CFA Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1079 jjgarmistry@hsbc.co.in	Target price (INR)	1,370			Index	Bombay SE Sensitive Index
	Share price (INR)	1,031			Bloomberg	JSTL IN
	Potential return (%)	33.8				
	Performance	1M	3M	12M	Market cap (USDm)	5,053
	Absolute	-11.8	-17.8	-6.0	Free float (%)	64
	Relative (%)	-7.6	-13.4	-17.2		

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ JSW Steel is the flagship company of the well diversified JSW Group, which has interests in steel, mining, energy, infrastructure & logistics, cement and IT.
- ▶ It has steel-making capacity of c8mt (c7mt at Vijaynagar + 1mt at Salem) which is expected to increase organically to 11mt in FY12 post expansion to 10mt at Vijaynagar. Recent acquisition of Ispat Industries takes total expanded capacity to 14mt, making JSW the largest private steel maker.
- ▶ Product portfolio has a greater proportion of flat products (c80%). Has the largest galvanizing and colour coating capacity in India.

Key points

- ▶ Lacks raw material integration (iron ore 20%, coking coal 0%), but is among the most efficient converters in the world. Is in the process of improving raw material integration through acquisitions of iron ore mines in Chile and coking coal mines in the US. However, full impact from these projects is still some time away.
- ▶ Recent 14.99% stake sale to JFE Steel Corp ensures a) cash infusion, thus de-levering the balance sheet in order to pursue strategic investments; b) technology transfer in the area of auto grade steelmaking.
- ▶ Organic volume growth post FY12 difficult to come by. W. Bengal steel plant likely to come on line after FY14.

Valuation and risks

- ▶ We value JSW on FY12e EV/EBITDA of 6.5x. We derive a target price of INR1,370 and are Neutral (V) on the stock.
- ▶ Key downside risks include unfavourable steel and raw material price movement. Timely execution of 3.2mtpa expansion at Vijaynagar is also a key risk.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	189,572	245,878	339,710	346,621	PE* (x)	12.1	12.0	7.1	5.1
EBITDA	40,707	50,756	73,277	93,685	EV/EBITDA (x)	9.5	7.1	5.4	4.6
EBIT	27,720	35,593	55,584	75,780	EV/sales (x)	2.0	1.5	1.2	1.2
Net income	15,976	21,532	36,327	50,949	P/BV (x)	2.0	1.3	1.1	0.9
EPS (INR)	85.41	86.04	145.16	203.59					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: JSW Steel Ltd

Neutral (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	189,572	245,878	339,710	346,621
EBITDA	40,707	50,756	73,277	93,685
Depreciation & amortisation	-12,987	-15,163	-17,693	-17,905
Operating profit/EBIT	27,720	35,593	55,584	75,780
Net interest	-11,080	-10,722	-10,179	-10,022
PBT	22,000	30,220	50,754	71,106
HSBC PBT	22,000	30,220	50,754	71,106
Taxation	-6,467	-8,688	-14,427	-20,157
Net profit	15,976	21,532	36,327	50,949
HSBC net profit	15,976	21,532	36,327	50,949

Cash flow summary (INRm)

Cash flow from operations	33,613	19,652	28,565	43,398
Capex	-27,418	-76,156	-63,000	-78,000
Cash flow from investment	-29,323	-76,156	-63,000	-78,000
Dividends	-1,777	-2,503	-2,503	-2,503
Change in net debt	-1,808	-25,717	34,435	34,602
FCF equity	-8,968	-65,637	-39,784	-39,950

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	284,090	345,083	390,389	450,484
Current assets	54,700	62,633	75,416	88,204
Cash & others	3,030	550	605	666
Total assets	345,071	413,997	472,087	544,970
Operating liabilities	80,727	70,314	57,586	44,858
Gross debt	164,521	136,323	170,813	205,475
Net debt	161,490	135,773	170,208	204,810
Shareholders funds	97,637	205,174	241,502	292,451
Invested capital	255,032	336,852	407,615	493,165

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	19.0	29.7	38.2	2.0
EBITDA	36.5	24.7	44.4	27.8
Operating profit	39.0	28.4	56.2	36.3
PBT	597.7	37.4	67.9	40.1
HSBC EPS	80.2	0.7	68.7	40.2

Ratios (%)

Revenue/IC (x)	0.8	0.8	0.9	0.8
ROIC	7.9	8.6	10.7	12.1
ROE	18.0	14.2	16.3	19.1
ROA	6.9	7.7	9.8	11.4
EBITDA margin	21.5	20.6	21.6	27.0
Operating profit margin	14.6	14.5	16.4	21.9
EBITDA/net interest (x)	3.7	4.7	7.2	9.3
Net debt/equity	161.8	65.5	69.8	69.5
Net debt/EBITDA (x)	4.0	2.7	2.3	2.2
CF from operations/net debt	20.8	14.5	16.8	21.2

Per share data (INR)

EPS Rep (fully diluted)	85.41	86.04	145.16	203.59
HSBC EPS (fully diluted)	85.41	86.04	145.16	203.59
DPS	9.50	10.00	10.00	10.00
Book value	522.01	819.85	965.01	1168.60

Key forecast drivers

Year to	03/2010a	03/2011e	03/2012e	03/2013e
MS Slab production (mt)	4	5	6	6
Billet production (mt)	1	2	3	3
Hard coking coal price (US\$/to)	160	231	250	225
External iron ore prices (US\$/to)	51	87	69	60

Valuation data

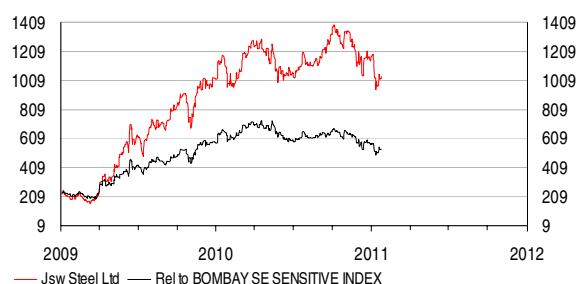
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	2.0	1.5	1.2	1.2
EV/EBITDA	9.5	7.1	5.4	4.6
EV/IC	1.5	1.1	1.0	0.9
PE*	12.1	12.0	7.1	5.1
P/Book value	2.0	1.3	1.1	0.9
FCF yield (%)	-4.0	-29.0	-17.6	-17.7
Dividend yield (%)	0.9	1.0	1.0	1.0

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	1031.80	Target price (INR)	1370.00	Potent'l return (%)	33.8
Reuters (Equity)	JSTL.BO	Bloomberg (Equity)	JSTL IN		
Market cap (USDm)	5,053	Market cap (INRm)	230,212		
Free float (%)	73	Enterprise value (INRm)	361,890		
Country	India	Sector	Metals & Mining		
Analyst	Jigar Mistry	Contact	+91 22 2268 1079		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

Larsen & Toubro, LT IN, OW

Ashutosh Narkar* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1474 ashutoshnarkar@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	2,341 1,659 41.1	Index Bloomberg	Bombay SE Sensitive Index LT IN
Manisha Bihani* Associate Bangalore	Performance Absolute Relative (%)	1M -15.4 -11.3	3M -17.9 -13.5	12M 12.7 -0.8
			Market cap (USDm) Free float (%)	22,132 84

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- Established in 1938, L&T is India's largest E&C company, and offers direct exposure to India's corporate capex cycle across all segments. The company has consistently delivered superior financial performance, which is reflected in its c21% revenue CAGR and c29% earnings CAGR over the past 10 years (FY01-10).
- L&T has strong and proven capabilities to undertake complex EPC contracts in the power, nuclear, hydrocarbon, cement and metal sectors. The company also develops and manages infrastructure projects in the road, rail (including metro), ports and airports segments. L&T is a strong player in the power transmission & distribution (T&D) equipment manufacturing (switchgears) and other industrial goods and machinery segments.

Key points

- L&T has been ahead of competition in identifying long-term growth drivers like oil & gas, infrastructure and industrial (during 2000-10). It has now put building blocks in place for new sectors like power equipment, nuclear and defence, which have structural growth potential. This we believe will reduce cyclicality and improve earnings visibility by supplementing growth in the industrial capex and infra segments over FY11-15.
- L&T's E&C business has revived markedly over FY10-11, which should percolate into revenues over the next few quarters. Additionally, new businesses will add their contribution from FY12 (in subsidiaries). This should drive a robust 26% consolidated earnings CAGR during FY11-13 (21% for standalone), driven primarily by rising share of subsidiaries' contribution (12% in FY10 to 21% by FY13e).

Valuation and risks

- We value L&T using a sum of the parts (SOTP) valuation at a target price of INR2,341, comprising its standalone business valued at INR1,855 (22x Sep 2012e earnings) and the subsidiaries at INR486. Our target price implies 22.6x Sep 2012e EPS compared with its past 5-year average of 23.8x.
- Risks include a sharp slowdown in economic growth and the impact on government spending and industrial capex, higher-than-anticipated EBITDA margin erosion over FY11-13, and a meaningful rise in interest rates, affecting project timelines.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	370,348	449,915	574,449	728,540	PE*	31.5	25.7	20.9	17.8
EBITDA	48,156	56,965	71,478	87,712	EV/EBITDA	19.3	16.2	13.0	10.4
EBIT	44,010	51,986	66,218	81,600	EV/Sales	2.5	2.0	1.6	1.3
Net income	31,650	38,773	47,725	56,023	P/BV	5.5	4.7	4.1	3.5
EPS (INR)	52.73	64.59	79.50	93.33					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Larsen & Toubro

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	370,348	449,915	574,449	728,540
EBITDA	48,156	56,965	71,478	87,712
Depreciation & amortisation	-4,146	-4,978	-5,260	-6,111
Operating profit/EBIT	44,010	51,986	66,218	81,600
Net interest	-5,053	-5,423	-5,742	-5,742
PBT	60,164	57,019	70,183	82,387
HSBC PBT	48,059	57,019	70,183	82,387
Taxation	-16,409	-18,246	-22,459	-26,364
Net profit	43,755	38,773	47,725	56,023
HSBC net profit	31,650	38,773	47,725	56,023

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	43,473	19,539	20,052	47,686
Capex	-15,858	-8,933	-16,786	-21,832
Cash flow from investment	-28,344	-16,922	-32,455	-37,418
Dividends	-7,755	-10,499	-12,325	-14,770
Change in net debt	-22,001	11,878	30,430	9,894
FCF equity	6,613	-13,062	-24,935	-6,252

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	1,427	1,025	789	552
Tangible fixed assets	62,231	66,587	78,349	94,306
Current assets	336,254	377,180	436,769	523,704
Cash & others	83,838	69,020	38,590	28,696
Total assets	467,446	530,771	627,263	752,033
Operating liabilities	212,429	248,994	310,045	393,212
Gross debt	70,847	67,907	67,907	67,907
Net debt	-12,991	-1,112	29,317	39,212
Shareholders funds	180,278	209,978	245,418	287,021
Invested capital	103,645	126,778	167,272	196,654

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	9.2	21.5	27.7	26.8
EBITDA	24.9	18.3	25.5	22.7
Operating profit	24.0	18.1	27.4	23.2
PBT	27.7	-5.2	23.1	17.4
HSBC EPS	14.0	22.5	23.1	17.4

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	3.6	3.9	3.9	4.0
ROIC	30.8	30.7	30.6	30.5
ROE	20.8	19.9	21.0	21.0
ROA	11.4	8.5	8.9	8.7
EBITDA margin	13.0	12.7	12.4	12.0
Operating profit margin	11.9	11.6	11.5	11.2
EBITDA/net interest (x)	9.5	10.5	12.4	15.3
Net debt/equity	-7.2	-0.5	11.9	13.7
Net debt/EBITDA (x)	-0.3	0.0	0.4	0.4
CF from operations/net debt			68.4	121.6

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	73.79	64.59	79.50	93.33
HSBC EPS (diluted)	52.73	64.59	79.50	93.33
DPS	13.12	12.92	17.49	20.53
Book value	300.33	349.80	408.84	478.15

Valuation data

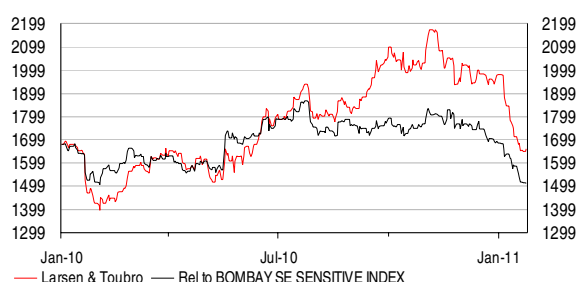
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	2.5	2.0	1.6	1.3
EV/EBITDA (x)	19.3	16.2	13.0	10.4
EV/IC (x)	9.0	7.3	5.5	4.6
PE* (x)	31.5	25.7	20.9	17.8
P/NAV (x)	5.5	4.7	4.1	3.5
FCF yield (%)	0.7	-1.4	-2.8	-0.7
Dividend yield (%)	0.8	0.8	1.1	1.2

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	1658.85	Target price (INR)	2341.00	Potent' l rtn (%)	41.1
Reuters (Equity)	LART.BO	Bloomberg (Equity)	LT IN		
Market cap (USDm)	22,132	Market cap (INRm)	1,008,257		
Free float (%)	84	Enterprise value (INRm)	921,165		
Country	India	Sector	Construction & Engineering		
Analyst	Ashutosh Narkar	Contact	+9122 2268 1474		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Lupin, LPC.IN, OW

Girish Bakhru* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1638 girishbakhru@hsbc.co.in	Target price (INR)	560.00				Index	Bombay SE Sensitive Index
	Share price (INR)	469.15				Bloomberg	LPC IN
	Potential return (%)	19.4					
	Performance	1M	3M	12M		Market cap (USDm)	4,594
	Absolute	3.1	6.1	64.1		Free float (%)	49.3%
	Relative (%)	8.0	11.7	44.5			

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Lupin Limited is a pharmaceuticals company producing a range of generic and branded formulations, and active pharmaceutical ingredients (APIs) for both regulated and non-regulated markets. It is the first Indian company to establish a substantial branded business in the US with its portfolio of three brands – Suprax, Antara and Aerochamber; branded business now contributes about 45% of revenues in the US.
- ▶ Lupin is one of the top 10 generic companies by prescription in the US despite having the smallest US generic portfolio among Indian peers with about 28 products. It has established formulation business for therapies like anti-infectives, cardiovascular, diabetes, anti-TB, CNS and respiratory, with chronic therapies contributing c40% of annual sales.

Key points

- ▶ Branded US business expected to remain strong; Antara revenue to touch USD80mn in FY12, AllerNaze launch expected in FY12, Suprax generic entry delayed. We believe growth in generic business, however, will outpace the branded segment.
- ▶ Lupin has been aggressive in ANDA filings in recent years (cumulatively 132 filings as at 2QFY11). The company has a strong pipeline of products in the US including many in oral contraceptives. We believe Lupin's strength in API may benefit the company in creating a meaningful dent in the market, which is currently dominated by MNC generics like Teva and Watson. We build in USD45m and USD60m sales from oral contraceptives in FY12 and FY13, respectively.
- ▶ Upsides in US generics include "one-time" sales benefit from products like generic Geodon, Fortamet and Cipro BD. Domestic formulations growth has been above peers; we forecast a 20% CAGR over FY10-13e.

Valuation and risks

- ▶ We value Lupin at INR560 based on 22x Dec-12e base earnings of INR25.5; our target multiple of 22x is a 10% premium to the 5-year historical sector average.
- ▶ Risks include a) threats to branded business in the US (key brands like Suprax (patent expired), Antara at risk from generic TriCor), b) delay in new product launches like AllerNaze could dent branded business if existing brand is also eroded.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	48,065	58,165	66,079	78,687	PE* (x)	31.4	24.4	22.6	17.3
EBITDA	9,196	12,278	14,837	19,902	EV/EBITDA (x)	23.8	17.7	14.4	10.4
EBIT	7,957	10,572	12,987	17,902	EV/sales (x)	4.5	3.7	3.2	2.6
Net income	6,651	8,572	9,244	12,077	P/BV (x)	8.1	6.5	5.1	4.0
EPS (INR)	14.92	19.23	20.74	27.10					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Lupin

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	48,065	58,165	66,079	78,687
EBITDA	9,196	12,278	14,837	19,902
Depreciation & amortisation	-1,239	-1,706	-1,850	-2,000
Operating profit/EBIT	7,957	10,572	12,987	17,902
Net interest	-336	-352	-122	-152
PBT	8,355	10,343	13,026	17,951
HSBC PBT	8,355	10,343	13,026	17,951
Taxation	-1,360	-1,568	-2,215	-3,231
Net profit	6,814	8,570	10,611	14,469
HSBC net profit	6,651	8,572	9,244	12,077

Cash flow summary (INRm)

Cash flow from operations	3,756	6,969	9,441	12,109
Capex	-6,454	-4,000	-3,000	-3,000
Cash flow from investment	-6,300	-4,204	-3,200	-3,250
Dividends	-1,463	-1,886	-2,034	-2,657
Change in net debt	-2,121	-879	-4,207	-6,202
FCF equity	-3,433	2,847	6,281	8,909

Balance sheet summary (INRm)

Intangible fixed assets	3,197	3,197	3,197	3,197
Tangible fixed assets	19,444	21,738	22,888	23,888
Current assets	28,019	32,943	37,774	51,630
Cash & others	2,280	1,659	3,866	8,068
Total assets	50,659	57,878	63,858	78,714
Operating liabilities	11,893	13,927	13,330	18,373
Gross debt	11,399	9,899	7,899	5,899
Net debt	9,119	8,240	4,033	-2,169
Shareholders funds	25,678	32,363	40,940	52,752
Invested capital	36,487	42,293	46,663	52,273

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	24.8	21.0	13.6	19.1
EBITDA	22.0	33.5	20.8	34.1
Operating profit	19.6	32.9	22.8	37.8
PBT	37.9	23.8	25.9	37.8
HSBC EPS	27.6	28.9	7.9	30.6

Ratios (%)

Revenue/IC (x)	1.5	1.5	1.5	1.6
ROIC	21.5	23.1	24.4	29.8
ROE	33.3	29.5	25.2	25.8
ROA	16.1	16.8	18.0	20.9
EBITDA margin	19.1	21.1	22.5	25.3
Operating profit margin	16.6	18.2	19.7	22.8
EBITDA/net interest (x)	27.3	34.9	122.1	131.4
Net debt/equity	35.2	25.3	9.8	-4.1
Net debt/EBITDA (x)	1.0	0.7	0.3	-0.1
CF from operations/net debt	41.2	84.6	234.1	

Per share data (INR)

EPS Rep (diluted)	15.29	19.23	23.81	32.46
HSBC EPS (diluted)	14.92	19.23	20.74	27.10
DPS	2.73	3.51	3.79	4.95
Book value	57.61	72.61	91.86	118.36

Valuation data

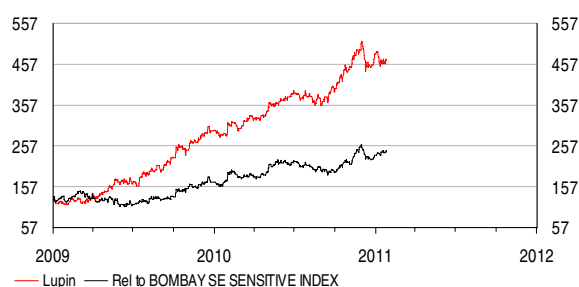
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	4.5	3.7	3.2	2.6
EV/EBITDA (x)	23.3	17.4	14.1	10.2
EV/IC (x)	5.9	5.1	4.5	3.9
PE* (x)	30.8	23.9	22.2	17.0
P/NAV (x)	8.0	6.3	5.0	3.9
FCF yield (%)	-1.7	1.4	3.1	4.3
Dividend yield (%)	0.6	0.8	0.8	1.1

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	469.15	Target price (INR)	560.00	Potent' l rtn (%)	19.4
Reuters (Equity)	LUPN.BO	Bloomberg (Equity)	LPC IN		
Market cap (USDm)	4,594	Market cap (INRm)	209,290		
Free float (%)	49	Enterprise value (INRm)	217,785		
Country	India	Sector	Pharmaceuticals		
Analyst	Girish Bakhru	Contact	+9122 2268 1638		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Maruti Suzuki, MSIL IN, OW

Tarun Bhatnagar* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 80 3001 3726 tarunbhatnagar@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	1,425.0 1,292.5 10.3	Index Bloomberg	Bombay SE Sensitive Index MSIL IN
Mansi Varma* Associate Bangalore	Performance Absolute Relative (%)	1M -7.3 -2.7	3M -14.1 -9.1	12M -9.3 -17.5
			Market cap (USDm) Free float (%)	8,197 35

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Maruti Suzuki is the largest passenger car company in India with a market share of 51.7% (in Q3 FY11). The company, a subsidiary of Suzuki Motor Corporation, Japan, which has a 54% holding, is engaged in the manufacture and sale of cars and spare parts.
- ▶ Maruti enjoys a strategic advantage in terms of deep understanding of the Indian market, a strong distribution network and low cost of ownership.

Key points

- ▶ We expect the launch of Kizashi sedan, followed by upgrades of its popular models, new Swift, SX4 diesel version and new Swift Dzire in CY11, to strengthen the company's product portfolio, thereby supporting volumes.
- ▶ On the exports front, it has suitably diversified its portfolio, with non-European markets (where growth continues to be slow) now constituting 70% of its volumes against 20% last year.
- ▶ In FY12, we anticipate realizations to improve driven by c2.3% price hike in January and a favourable change in product mix on account of new launches.

Valuation and risks

- ▶ The stock is currently trading at 12.5x our FY12e EPS. We expect the multiple to stay largely unchanged at 12.4x. Consequently, we apply the current forward-year multiple to FY13e EPS to derive our 12-month target price of INR1,425.
- ▶ Key downside risks include adverse currency movement (EUR for exports and to JPY for imports), stronger competition, and higher-than-expected increase in raw material prices and interest rates.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010a	2011e	2012e	2013e
Revenue	300,335	370,026	434,411	500,025	PE* (x)	14.2	15.9	13.1	11.3
EBITDA	39,544	36,553	43,673	50,871	EV/EBITDA (x)	7.8	8.2	6.7	5.5
EBIT	31,130	26,838	32,387	37,186	EV/sales (x)	1.0	0.8	0.7	0.6
Net income	26,247	23,499	28,511	33,124	P/BV (x)	3.1	2.6	2.2	1.9
EPS (INR)	90.85	81.34	98.68	114.65					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Maruti Suzuki India Ltd

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	300,335	370,026	434,411	500,025
EBITDA	39,544	36,553	43,673	50,871
Depreciation & amortisation	-8,414	-9,714	-11,286	-13,686
Operating profit/EBIT	31,130	26,838	32,387	37,186
Net interest	6,336	6,015	7,420	9,074
PBT	37,466	32,853	39,808	46,260
HSBC PBT	37,466	32,853	39,808	46,260
Taxation	-11,219	-9,354	-11,297	-13,136
Net profit	26,247	23,499	28,511	33,124
HSBC net profit	26,247	23,499	28,511	33,124

Cash flow summary (INRm)

Cash flow from operations	34,911	32,298	40,634	45,260
Capex	-13,212	-23,954	-30,000	-30,000
Cash flow from investment	-54,408	-23,901	-38,711	-43,017
Dividends	-1,183	-2,021	-1,924	-2,245
Change in net debt	-20,720	-6,325	-8,711	-13,017
FCF equity	21,699	8,344	10,634	15,260

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	55,635	69,875	88,589	104,903
Current assets	108,227	124,594	141,595	164,431
Cash & others	70,622	76,947	85,657	98,674
Total assets	168,835	199,441	235,157	274,307
Operating liabilities	36,493	45,620	54,748	63,017
Gross debt	9,055	9,055	9,055	9,055
Net debt	-61,567	-67,892	-76,602	-89,619
Shareholders funds	121,826	143,306	169,893	200,774
Invested capital	56,747	71,902	89,779	107,643

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	42.4	23.2	17.4	15.1
EBITDA	120.5	-7.6	19.5	16.5
Operating profit	189.0	-13.8	20.7	14.8
PBT	120.2	-12.3	21.2	16.2
HSBC EPS	113.8	-10.5	21.3	16.2

Ratios (%)

Revenue/IC (x)	5.5	5.8	5.4	5.1
ROIC	40.0	29.8	28.7	27.0
ROE	24.1	17.7	18.2	17.9
ROA	17.2	12.9	13.3	13.2
EBITDA margin	13.2	9.9	10.1	10.2
Operating profit margin	10.4	7.3	7.5	7.4
EBITDA/net interest (x)				
Net debt/equity	-50.5	-47.4	-45.1	-44.6
Net debt/EBITDA (x)	-1.6	-1.9	-1.8	-1.8
CF from operations/net debt				

Per share data (INR)

EPS Rep (fully diluted)	90.85	81.34	98.68	114.65
HSBC EPS (fully diluted)	90.85	81.34	98.68	114.65
DPS	4.09	7.00	6.66	7.77
Book value	421.67	496.02	588.05	694.94

Valuation data

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	1.0	0.8	0.7	0.6
EV/EBITDA	7.8	8.2	6.7	5.5
EV/IC	5.4	4.2	3.3	2.6
PE*	14.2	15.9	13.1	11.3
P/Book value	3.1	2.6	2.2	1.9
FCF yield (%)	5.9	2.3	2.9	4.1
Dividend yield (%)	0.3	0.5	0.5	0.6

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	1292.50	Target price (INR)	1425.00	Potent'l return (%)	10.3
Reuters (Equity)	MRTI.BO	Bloomberg (Equity)	MSIL IN		
Market cap (USDm)	8,197	Market cap (INRm)	373,416		
Free float	35	Enterprise value (INRm)	300,552		
Country	India	Sector	Autos		
Analyst	Tarun Bhatnagar	Contact	+91 80 3001 3726		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

Marico Industries, MRCO IN, UW

Percy Panthaki* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1240 percypanthaki@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	132.00 126.75 4.1	Index Bloomberg	Bombay SE Sensitive Index MRCO IN
	Performance	1M Absolute Relative (%)	3M -0.2 6.4	12M 25.0 12.2
			Market cap (USDm) Free float (%)	1,709 37

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Marico is a consumer staples company focussing on the oils portfolio – edible and hair oils. Its Parachute brand is synonymous with coconut oil in India and its Saffola edible oil has a strong good-for-the-heart platform. The company is prototyping the Saffola brand across other products such as rice, salt, atta on the health platform. Apart from Parachute, which is a coconut hair oil, the company has other hair oils under the brands of Hair and Care, Shanti Badam Amla. Marico also has an international presence, mainly in Bangladesh and the MENA region. Moreover, Marico operates skin clinics under the brand name "Kaya" in India and the Middle East.

Key points

- ▶ Coconut oil inflation at over 50% in the last few months is likely to erode margins in spite of price increase. Price increase could hurt volume growth, too.
- ▶ Fundamental growth story is intact – brands are strong and the long-term growth outlook is positive.
- ▶ Challenges faced are to turn around Kaya into a profitable business and extend Saffola into other categories apart from oil.

Valuation and risks

- ▶ Our target price of INR132 is based on 22x Sep-12e EPS. Over the last three years, the forward PE has averaged 21x within a band of 14-28x. Currently, the stock is trading at 24x 12-month forward EPS, which is a 10% premium to our target multiple. Our FY13e EPS is INR6.51, which represents a 3-year (FY10-13e) CAGR of 18.1%.
- ▶ Upside risk: Margin expansion from lower raw material cost; and higher volumes in functional foods on the back of improved consumer sentiment.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	26608	31076	36260	42179	PE* (x)	32.1	28.4	23.4	19.5
EBITDA	3752	4063	4827	5646	EV/EBITDA (x)	21.7	18.9	15.6	13.0
EBIT	3151	3569	4253	4991	EV/sales (x)	3.0	2.5	2.1	1.7
Net income	2317	2729	3319	3981	P/BV (x)	11.8	8.8	6.9	5.6
EPS (INR)	3.95	4.46	5.43	6.51					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Marico Industries

Underweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	26,608	31,076	36,260	42,179
EBITDA	3,752	4,063	4,827	5,646
Depreciation & amortisation	-601	-495	-573	-655
Operating profit/EBIT	3,151	3,569	4,253	4,991
Net interest	-146	-218	-180	-105
PBT	2,979	3,434	4,172	5,000
HSBC PBT	3,077	3,434	4,172	5,000
Taxation	-643	-687	-834	-1,000
Net profit	2,317	2,729	3,319	3,981
HSBC net profit	2,415	2,729	3,319	3,981

Cash flow summary (INRm)

Cash flow from operations	1,915	4,222	3,496	4,316
Capex	-1,275	-75	-900	-1,001
Cash flow from investment	-2,074	-75	-900	-1,001
Dividends	-476	-480	-992	-1,190
Change in net debt	516	-3,648	-1,585	-2,106
FCF equity	400	4,063	2,498	3,201

Balance sheet summary (INRm)

Intangible fixed assets	850	850	850	850
Tangible fixed assets	3,997	3,577	3,904	4,251
Current assets	8,970	10,194	12,070	14,295
Cash & others	1,115	2,757	3,710	4,954
Total assets	15,260	16,065	18,268	20,839
Operating liabilities	3,369	3,820	4,226	4,741
Gross debt	4,459	2,452	1,821	959
Net debt	3,344	-304	-1,889	-3,996
Shareholders funds	6,540	8,788	11,116	13,907
Invested capital	9,950	8,662	9,504	10,317

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	11.4	16.8	16.7	16.3
EBITDA	23.4	8.3	18.8	17.0
Operating profit	17.5	13.3	19.2	17.3
PBT	29.7	15.3	21.5	19.9
HSBC EPS	27.5	13.0	21.6	20.0

Ratios (%)

Revenue/IC (x)	3.0	3.3	4.0	4.3
ROIC	28.8	31.1	38.1	41.1
ROE	43.6	35.6	33.3	31.8
ROA	18.4	18.6	20.3	20.9
EBITDA margin	14.1	13.1	13.3	13.4
Operating profit margin	11.8	11.5	11.7	11.8
EBITDA/net interest (x)	25.7	18.6	26.9	53.8
Net debt/equity	50.2	-3.4	-16.8	-28.5
Net debt/EBITDA (x)	0.9	-0.1	-0.4	-0.7
CF from operations/net debt	57.3			

Per share data (INR)

EPS Rep (fully diluted)	3.79	4.46	5.43	6.51
HSBC EPS (fully diluted)	3.95	4.46	5.43	6.51
DPS	0.67	0.79	1.63	1.95
Book value	10.73	14.42	18.24	22.82

Valuation data

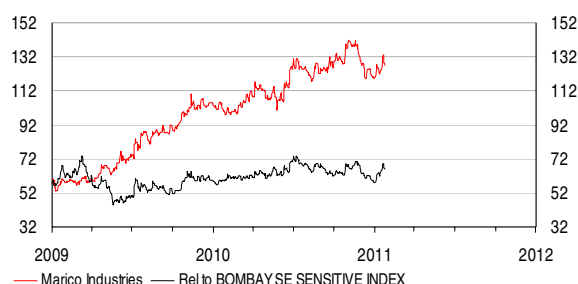
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	3.0	2.5	2.1	1.7
EV/EBITDA	21.5	18.9	15.6	13.0
EV/IC	8.1	8.9	7.9	7.1
PE*	32.1	28.4	23.4	19.5
P/Book value	11.8	8.8	6.9	5.6
FCF yield (%)	0.5	5.3	3.2	4.1
Dividend yield (%)	0.5	0.6	1.3	1.5

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	126.75	Target price (INR)	132.00	Potentl return (%)	4.1
Reuters (Equity)	MRCO.BO	Bloomberg (Equity)	MRCO IN		
Market cap (USDm)	1,709	Market cap (INRm)	77,862		
Free float (%)	37	Enterprise value (INRm)	76,856		
Country	India	Sector	Personal Products		
Analyst	Percy Panthaki	Contact	+9122 2268 1240		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

National Aluminium Company, NACL IN, UW

Jigar Mistry*, CFA Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1079 jjgarmistry@hsbc.co.in	Target price (INR)	360			Index	Bombay SE Sensitive Index
	Share price (INR)	380			Bloomberg	NACL IN
	Potential return (%)	-4				
	Performance	1M	3M	12M	Market cap (USDm)	5,376
	Absolute	-0.5	-4.8	-9.7	Free float (%)	9
	Relative (%)	4.3	0.2	-20.5		

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ NALCO is an integrated alumina/ aluminium pure-play with world class mining, refining and smelting assets. According to Brook Hunt, Nalco's (NACL) Panchpatmali bauxite mine ranks in the 47.7th percentile (company-wide rank 22nd percentile) and is at the lowest cost of mines operating in India. Also, NACL's Damanjodi alumina refinery ranks at 22nd percentile (company-wide rank 10th percentile) with cash conversion cost of USD144/tonne in 2010, and its smelter at Angul, Orissa, ranks at 18th percentile (company-wide rank 14th percentile) with cash cost at USD1,455/tonne.

Key points

- ▶ Longer-term growth plans are in place – to increase refining capacity by 2.1mt, smelting by 1.1mt and captive power capacity by 2.6GW. However, these projects are likely to be operational only post FY14.
- ▶ NALCO is also looking to diversify into nuclear power, uranium mining, copper & rare earths, but timelines remain hazy.
- ▶ Expensive stock given lack of near-term growth. Trades at a significant premium to its domestic peers (one-year forward EV/EBITDA of 8.1x against its 5-year average of 7.6x and current non-ferrous sector average of 6.9x).

Valuation and risks

- ▶ We value Nalco at FY12e EV/EBITDA of 7.0x, at a premium to the 6.5x multiple that we use to value other non-ferrous stocks in our coverage. NACL has historically traded at a premium to peers in India based on its better quality assets and lower available equity float. We derive a target price of INR360 and rate the stock Underweight.
- ▶ Lower than expected power costs and higher than expected aluminium prices form upside risks.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	50,799	58,626	69,777	75,805	PE* (x)	30.4	21.6	14.6	13.1
EBITDA	10,907	18,190	26,317	28,911	EV/EBITDA (x)	18.7	11.0	7.2	6.4
EBIT	7,713	14,293	21,869	24,420	EV/sales (x)	4.0	3.4	2.7	2.4
Net income	8,059	11,363	16,762	18,661	P/BV (x)	2.4	2.2	2.0	1.8
EPS (INR)	12.51	17.64	26.02	28.96					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: National Aluminium Co Ltd

Underweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	50,799	58,626	69,777	75,805
EBITDA	10,907	18,190	26,317	28,911
Depreciation & amortisation	-3,194	-3,896	-4,449	-4,490
Operating profit/EBIT	7,713	14,293	21,869	24,420
Net interest	-23	-23	-23	-23
PBT	11,548	17,217	25,397	28,274
HSBC PBT	11,431	17,217	25,397	28,274
Taxation	-3,406	-5,854	-8,635	-9,613
Net profit	8,142	11,363	16,762	18,661
HSBC net profit	8,059	11,363	16,762	18,661

Cash flow summary (INRm)

Cash flow from operations	11,716	14,911	20,667	19,709
Capex	-6,776	-10,468	-10,357	-14,407
Cash flow from investment	-5,931	-7,522	-6,806	-10,531
Dividends	-3,038	-3,769	-3,769	-3,769
Change in net debt	-2,833	-3,619	-10,092	-5,409
FCF equity	507	3,857	9,446	4,341

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	70,797	77,369	83,277	93,194
Current assets	52,096	54,390	64,460	70,726
Cash & others	31,524	35,143	45,235	50,644
Total assets	132,761	141,627	157,605	173,788
Operating liabilities	22,199	22,886	25,007	25,338
Gross debt	0	0	0	0
Net debt	-31,524	-35,143	-45,235	-50,644
Shareholders funds	103,956	111,550	124,543	139,434
Invested capital	69,171	73,731	77,495	87,939

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	-0.8	15.4	19.0	8.6
EBITDA	-39.0	66.8	44.7	9.9
Operating profit	-49.2	85.3	53.0	11.7
PBT	-40.1	49.1	47.5	11.3
HSBC EPS	-36.2	41.0	47.5	11.3

Ratios (%)

Revenue/IC (x)	0.8	0.8	0.9	0.9
ROIC	8.0	13.2	19.1	19.5
ROE	8.0	10.5	14.2	14.1
ROA	6.4	8.3	11.2	11.3
EBITDA margin	21.5	31.0	37.7	38.1
Operating profit margin	15.2	24.4	31.3	32.2
EBITDA/net interest (x)	478.4	797.8	1154.3	1268.0
Net debt/equity	-30.3	-31.5	-36.3	-36.3
Net debt/EBITDA (x)	-2.9	-1.9	-1.7	-1.8
CF from operations/net debt				

Per share data (INR)

EPS Rep (fully diluted)	12.64	17.64	26.02	28.96
HSBC EPS (fully diluted)	12.51	17.64	26.02	28.96
DPS	2.50	5.00	5.00	5.00
Book value	161.34	173.13	193.30	216.41

Key forecast drivers

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Aluminium prices (USD/t)	1,872	2,267	2,535	2,618
Alumina prices (USD/t)	260	340	380	393
Aluminium production (kt)	1,592	1,536	2,058	2,230
Alumina production (kt)	431	469	473	482
Exchange rate (INR:USD)	47	45	42	43

Valuation data

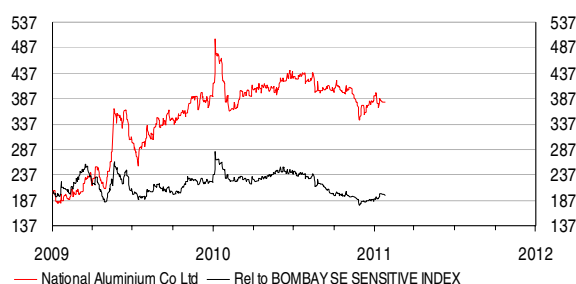
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	4.0	3.4	2.7	2.4
EV/EBITDA	18.7	11.0	7.2	6.4
EV/IC	2.9	2.7	2.4	2.1
PE*	30.4	21.6	14.6	13.1
P/Book value	2.4	2.2	2.0	1.8
FCF yield (%)	0.2	1.6	4.0	1.8
Dividend yield (%)	0.7	1.3	1.3	1.3

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	380.10	Target price (INR)	360.00	Potent'l return (%)	-4
Reuters (Equity)	NALU.BO	Bloomberg (Equity)	NACL IN		
Market cap (USDm)	5,376	Market cap (INRm)	244,902		
Free float (%)	100	Enterprise value (INRm)	199,892		
Country	India	Sector	Metals & Mining		
Analyst	Jigar Mistry	Contact	+91 22 2268 1079		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

NIIT, NIIT IN, OW(V)

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	85 57 49	Index Bloomberg	Bombay SE Sensitive Index NIIT IN
Atul Agrawal* Associate Bangalore	Performance Absolute Relative (%)	1M 4.1 9.1	3M -16.9 -12.5	12M -17.6 -27.4
Market cap (USDm)				207

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ NIIT is one of India's leading education companies, and is the strongest brand in the Indian education market.
- ▶ The company has no regulatory risk as it operates mostly in the non-regulated market.
- ▶ Current business line has high operating leverage, as volume growth starts picking up.

Key points

- ▶ Strength in Corporate Learning Services (CLS), Individual Learning Services (ILS) and New businesses to compensate for weakness in the School Learning Services (SLS) business
- ▶ Decline in business from SLS will improve cash flows and return ratios as government school business is very capital-intensive with poor returns.
- ▶ Continued strength in IT demand and corporate training outsourcing should result in stronger growth in 2011, in our view.

Valuation and risks

- ▶ We value NIIT at a PE of 12x our FY12e EPS, in line with the historical average. We arrive at a target price of INR85.
- ▶ We substantiate our PE-based valuation with a DCF analysis, resulting in a similar target price. We assume revenue CAGR of 13% over FY10-20, WACC of 13.8% and EBIT margins of 10% in the long term.
- ▶ Slowdown in the IT demand environment remains the key risk to our estimates.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	11,993	12,774	14,561	16,406	PE* (x)	13.3	10.8	8.2	6.5
EBITDA	1,568	1,847	2,270	2,636	EV/EBITDA (x)	7.4	6.1	4.6	3.5
EBIT	817	1,003	1,251	1,488	EV/sales (x)	1.0	0.9	0.7	0.6
Net income	702	874	1,158	1,459	P/BV (x)	1.8	1.7	1.5	1.2
EPS (INR)	4.30	5.28	7.00	8.82					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: NIIT

Overweight (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	11,993	12,774	14,561	16,406
EBITDA	1,568	1,847	2,270	2,636
Depreciation & amortisation	751	844	1,019	1,148
Operating profit/EBIT	817	1,003	1,251	1,488
Net interest	329	359	287	208
PBT	488	632	964	1,279
HSBC PBT	488	632	964	1,279
Taxation	-108	-176	-241	-320
Net profit	702	874	1,158	1,459
HSBC net profit	702	874	1,158	1,459

Cash flow summary (INRm)

Cash flow from operations	279	1,482	2,237	2,352
Capex	-940	-900	-1,000	-1,000
Cash flow from investment	-1,153	-900	-1,000	-1,000
Dividends	-231	-248	-248	-248
Change in net debt	691	-292	-947	-1,062
FCF equity	-325	894	1,376	1,269

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	5,364	5,420	5,401	5,252
Current assets	6,385	6,913	7,300	8,118
Cash & others	621	913	1,361	1,923
Total assets	13,317	13,901	14,269	14,939
Operating liabilities	4,207	4,207	4,207	4,207
Gross debt	4,046	4,046	3,546	3,046
Net debt	3,425	3,133	2,185	1,123
Shareholders funds	5,043	5,627	6,495	7,665
Invested capital	6,921	7,213	7,134	7,241

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	4.4	6.5	14.0	12.7
EBITDA	32.3	17.8	22.9	16.1
Operating profit	51.6	22.8	24.7	18.9
PBT	99.2	29.6	52.5	32.7
HSBC EPS	1.7	22.8	32.5	26.0

Ratios (%)

Revenue/IC (x)	1.8	1.8	2.0	2.3
ROIC	27.7	27.5	34.4	39.5
ROE	14.3	16.4	19.1	20.6
ROA	5.3	5.5	7.0	8.1
EBITDA margin	13.1	14.5	15.6	16.1
Operating profit margin	6.8	7.9	8.6	9.1
EBITDA/net interest (x)				
Net debt/equity	67.6	55.5	33.5	14.6
Net debt/EBITDA (x)	2.2	1.7	1.0	0.4
CF from operations/net debt	8.1	47.3	102.4	209.4

Per share data (INR)

EPS Rep (diluted)	4.30	5.28	7.00	8.82
HSBC EPS (diluted)	4.30	5.28	7.00	8.82
DPS	1.42	1.50	1.50	1.50
Book value	30.89	34.00	39.25	46.31

Valuation data

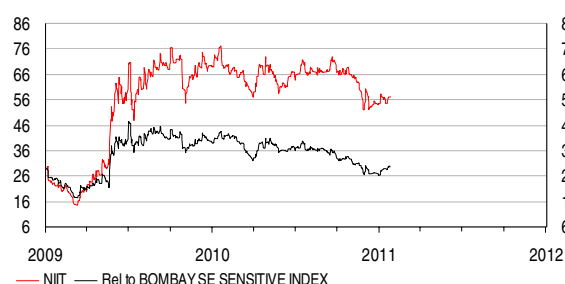
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	1.0	0.9	0.7	0.6
EV/EBITDA (x)	7.4	6.1	4.6	3.5
EV/IC (x)	1.7	1.6	1.4	1.3
PE* (x)	13.3	10.8	8.2	6.5
P/NAV (x)	1.8	1.7	1.5	1.2
FCF yield (%)	-4.0	11.0	16.9	15.6
Dividend yield (%)	2.5	2.6	2.6	2.6

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	57.05	Target price (INR)	85.00	Potent' l rtn (%)	49.0
Reuters (Equity)	NIIT.BO	Bloomberg (Equity)	NIIT IN		
Market cap (USDm)	207	Market cap (INRm)	9,419		
Free float (%)		Enterprise value (INRm)	11,282		
Country	India	Sector	IT Services		
Analyst	Yogesh Aggarwal	Contact	+9122 2268 1246		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Oil India Limited, OINL IN, N

Kumar Manish * Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 22681238 kmanish@hsbc.co.in	Target price (INR)	1434				Index	Bombay SE Sensitive Index
	Share price (INR)	1266.65				Bloomberg	OINL IN
	Potential return (%)	13.2					
	Performance	1M	3M	12M		Market cap (USDm)	6,685
	Absolute	-9.7	-13.4	5.9		Free float (%)	22
	Relative (%)	-5.1	-8.4	-7.7			

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ Oil India is a government-owned oil and gas company dominant in E&P and has a presence in downstream and transportation. It has 2P reserves of 957MMboe and contributes c10% of oil and c7% of natural gas production in India.
- ▶ It holds a stake in 65 E&P blocks (19 are outside India) of which it is an operator in 44 blocks (39 in India and the rest in Venezuela, Libya and Gabon). It holds a 26% stake in Numaligarh refinery and 10% stake in BPCL's gas cracker project.

Key points

- ▶ We expect Oil India's crude oil and natural gas production to increase at a CAGR of 5.6% and 7.9% to 30.1MMbbls and 2,808MMscm over FY10-13. Most of the assets of the company are located in the north eastern part of India in Assam.
- ▶ The company is investing heavily in building its asset portfolio. It is spending about INR40bn in FY11 (which is equal to the total capex spent in FY07-10) and plans to spend a similar amount in FY12.

Valuation and risks

- ▶ We value the stock at 10x FY13e EPS of INR143.4, valuing it at INR1,434/share. We expect the FY11 and FY12 EPS to be INR131/share and INR141/share. The stock is currently trading at a PE of 9.8x for FY11 and 9.1x for FY12.
- ▶ Any material fluctuation in the crude oil price can affect revenues and the under-recovery burden of the company and its profitability. Failure to develop additional reserves or redevelop existing fields also adds to the risks. The company is subject to the risk of higher subsidy burden.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	78,100	91,339	98,589	103,696	PE* (x)	11.3	9.8	9.1	9.0
EBITDA	37,312	45,878	50,867	53,272	EV/EBITDA (x)	5.8	4.6	4.2	4.0
EBIT	29,674	36,374	39,188	39,743	EV/sales (x)	2.8	2.3	2.2	2.0
Net income	26,104	31,606	33,932	34,483	P/BV (x)	2.1	2.0	1.7	1.5
EPS (INR)	113.78	131.44	141.12	143.41					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Oil India Limited

Neutral

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	78,100	91,339	98,589	103,696
EBITDA	37,312	45,878	50,867	53,272
Depreciation & amortisation	-7,638	-9,503	-11,678	-13,529
Operating profit/EBIT	29,674	36,374	39,188	39,743
Net interest	6,103	6,191	6,191	6,191
PBT	38,950	47,093	50,558	51,380
HSBC PBT	38,950	47,093	50,558	51,380
Taxation	-12,846	-15,487	-16,626	-16,897
Net profit	26,104	31,606	33,932	34,483
HSBC net profit	26,104	31,606	33,932	34,483

Cash flow summary (INRm)

Cash flow from operations	21,765	38,449	44,522	45,936
Capex	-11,485	-23,425	-33,275	-32,894
Cash flow from investment	-24,808	-34,346	-45,262	-45,075
Dividends	-8,175	-9,543	-10,246	-10,412
Change in net debt	-24,919	-4,103	740	-861
FCF equity	12,533	15,697	12,275	14,426

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	49,459	66,188	91,055	114,071
Current assets	122,696	127,451	127,361	128,873
Cash & others	85,430	89,533	88,793	89,654
Total assets	180,933	202,172	226,950	251,478
Operating liabilities	18,051	19,054	19,470	19,899
Gross debt	375	375	375	375
Net debt	-85,055	-89,158	-88,418	-89,279
Shareholders funds	137,637	158,078	180,024	202,325
Invested capital	68,674	85,051	110,153	133,391

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	8.8	17.0	7.9	5.2
EBITDA	16.2	23.0	10.9	4.7
Operating profit	20.5	22.6	7.7	1.4
PBT	15.0	20.9	7.4	1.6
HSBC EPS	12.6	15.5	7.4	1.6

Ratios (%)

Revenue/IC (x)	1.3	1.2	1.0	0.9
ROIC	35.6	34.2	29.2	23.9
ROE	22.6	21.4	20.1	18.0
ROA	16.6	16.5	15.8	14.4
EBITDA margin	47.8	50.2	51.6	51.4
Operating profit margin	38.0	39.8	39.7	38.3
EBITDA/net interest (x)				
Net debt/equity	-61.8	-56.4	-49.1	-44.1
Net debt/EBITDA (x)	-2.3	-1.9	-1.7	-1.7
CF from operations/net debt				

Per share data (INR)

EPS Rep (diluted)	113.78	131.44	141.12	143.41
HSBC EPS (diluted)	113.78	131.44	141.12	143.41
DPS	35.63	39.69	42.61	43.30
Book value	599.90	657.42	748.68	841.43

Valuation data

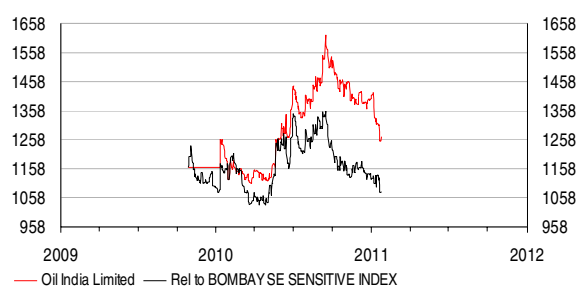
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	2.7	2.3	2.1	2.0
EV/EBITDA (x)	5.7	4.5	4.1	3.9
EV/IC (x)	3.1	2.4	1.9	1.6
PE* (x)	11.1	9.6	9.0	8.8
P/NAV (x)	2.1	1.9	1.7	1.5
FCF yield (%)	4.2	5.3	4.1	4.9
Dividend yield (%)	2.8	3.1	3.4	3.4

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	1266.65	Target price (INR)	1434.00	Potent' l rtn (%)	13.2
Reuters (Equity)	OILI.BO	Bloomberg (Equity)	OINL IN		
Market cap (USDm)	6,685	Market cap (INRm)	304,572		
Free float (%)	22	Enterprise value (INRm)	207,064		
Country	India	Sector	Oil & Gas		
Analyst	Kumar Manish	Contact	+91 22 22681238		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Pantaloon Retail, PF IN, N

Percy Panthaki * Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1240 percypanthaki@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	445.00 324.05 37.3	Index Bloomberg	Bombay SE Sensitive Index PF IN
	Performance	1M 3M 12M	Market cap (USDm)	1,431
	Absolute	-11.6 -33.6 -23.8	Free float (%)	57
	Relative (%)	-6.6 -29.6 -32.4		

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- Pantaloon is the largest retailer in India with c14m sq ft of retail space under operation. It operates several retail formats such as hypermarkets (Big Bazaar), supermarkets (Food Bazaar), department stores (Central, Pantaloons) and home retailing formats Electronics Bazaar and Home Town. The home retailing formats do not yet break even. Moreover, Pantaloon has a listed subsidiary, FCH (Future Capital Holdings), which has interests in consumer finance and insurance.

Key points

- Home retailing losses putting pressure on overall business profitability – breakeven could be a positive trigger, but this is unlikely in the near term.
- Attempts being made to increase the sale of foods – may increase overall sales but impact margins negatively. Expected expansion of c2.5m sq ft each year.

Valuation and risks

- Our target price of INR445 is based on SOTP; standalone company valued at INR384 based on our forward EV/EBITDA estimate of 9.5x applied to Dec-11e EBITDA. The 55% stake in FCH is valued at INR35, based on current market price and Home Solutions business is valued at INR26 on DCF. Our FY13e EPS is INR19.40, which represents a 3-year (FY10-13e) CAGR of 20.0%. Currently, the stock is trading at 6.3x FY12e EBITDA.
- Upside risk: Potential interest cost savings; higher than estimated square feet addition and sales per square feet; business restructuring and IPO at favourable terms.
- Downside risk: Dip in consumer spending due to macro economic weakness; execution risk in opening new stores; equity dilution of a higher order or at a lower price; inefficient working capital management or higher spend on fixed assets; and higher losses in subsidiaries.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	78805	99286	120585	143647	PE* (x)	28.9	21.2	16.7	14.4
EBITDA	8430	10897	13296	15474	EV/EBITDA (x)	9.7	7.9	6.3	5.5
EBIT	6599	8521	10357	11921	EV/sales (x)	1.0	0.9	0.7	0.6
Net income	2313	3224	4312	5016	P/BV (x)	2.1	1.9	1.6	1.4
EPS (INR)	11.22	15.27	19.40	22.57					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Pantaloon Retail

Neutral (V)

Financial statements

Year to	06/2009a	06/2010e	06/2011e	06/2012e
Profit & loss summary (INRm)				
Revenue	63,417	78,805	99,286	120,585
EBITDA	6,684	8,430	10,897	13,296
Depreciation & amortisation	-1,401	-1,831	-2,376	-2,939
Operating profit/EBIT	5,284	6,599	8,521	10,357
Net interest	-3,182	-3,220	-3,795	-4,025
PBT	2,162	3,489	4,863	6,504
HSBC PBT	2,162	3,489	4,863	6,504
Taxation	-757	-1,176	-1,639	-2,192
Net profit	1,406	2,313	3,224	4,312
HSBC net profit	1,406	2,313	3,224	4,312

Cash flow summary (INRm)

Year to	06/2009a	06/2010e	06/2011e	06/2012e
Cash flow from operations	1,291	3,638	3,274	5,110
Capex	-5,106	-5,475	-6,138	-6,818
Cash flow from investment	-10,847	-9,510	-10,672	-10,028
Dividends	-91	-97	-114	-117
Change in net debt	6,704	968	6,689	36
FCF equity	-3,886	-1,926	-3,004	-1,887

Balance sheet summary (INRm)

Year to	06/2009a	06/2010e	06/2011e	06/2012e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	19,140	23,090	27,514	31,426
Current assets	32,827	38,788	42,646	48,065
Cash & others	1,093	3,870	1,182	1,146
Total assets	61,508	73,918	84,701	96,531
Operating liabilities	9,119	10,546	13,237	15,748
Gross debt	28,504	32,249	36,249	36,249
Net debt	27,411	28,379	35,067	35,103
Shareholders funds	22,724	29,941	33,875	43,069
Invested capital	41,755	47,461	55,742	62,597

Ratio, growth and per share analysis

Year to	06/2009a	06/2010e	06/2011e	06/2012e
Y-o-y % change				
Revenue	25.6	24.3	26.0	21.5
EBITDA	45.1	26.1	29.3	22.0
Operating profit	40.1	24.9	29.1	21.5
PBT	10.5	61.4	39.4	33.7
HSBC EPS	-4.8	41.4	36.1	27.0

Ratios (%)

Year to	06/2009a	06/2010e	06/2011e	06/2012e
Revenue/IC (x)	1.7	1.8	1.9	2.0
ROIC	9.6	10.2	11.4	12.0
ROE	6.8	8.8	10.1	11.2
ROA	6.6	6.7	7.3	7.8
EBITDA margin	10.5	10.7	11.0	11.0
Operating profit margin	8.3	8.4	8.6	8.6
EBITDA/net interest (x)	2.1	2.6	2.9	3.3
Net debt/equity	120.6	94.8	103.5	81.5
Net debt/EBITDA (x)	4.1	3.4	3.2	2.6
CF from operations/net debt	4.7	12.8	9.3	14.6

Per share data (INR)

Year to	06/2009a	06/2010e	06/2011e	06/2012e
EPS Rep (fully diluted)	7.94	11.22	15.27	19.40
HSBC EPS (fully diluted)	7.94	11.22	15.27	19.40
DPS	0.60	0.60	0.60	0.60
Book value	141.19	157.40	173.52	208.74

Key forecast drivers

Year to	06/2009a	06/2010e	06/2011e	06/2012e
Total stores (stand-alone)	382	477	570	680
Total sq ft (stand-alone)	9,746	11,761	14,755	17,281
Sales per effective sq ft (stand-alone)	7,278	7,497	7,497	7,647
Effective sq ft (Home Retail)	1,531	1,837	2,204	2,645
EBITDA margin (% , stand-alone)	11	11	11	11

Valuation data

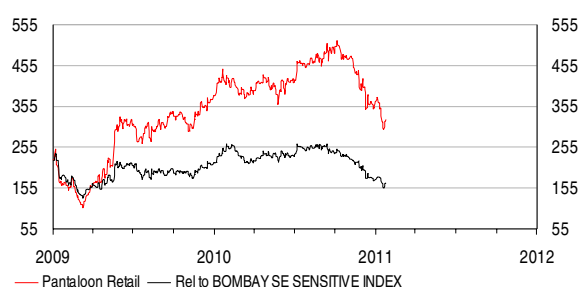
Year to	06/2009a	06/2010e	06/2011e	06/2012e
EV/sales	1.3	1.0	0.9	0.7
EV/EBITDA	12.4	9.7	7.9	6.3
EV/IC	2.0	1.7	1.5	1.3
PE*	40.8	28.9	21.2	16.7
P/Book value	2.3	2.1	1.9	1.6
FCF yield (%)	-7.0	-3.6	-5.9	-3.9
Dividend yield (%)	0.2	0.2	0.2	0.2

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	324.05	Target price (INR)	445.00	Potent'l return (%)	37.3
Reuters (Equity)	PART.BO	Bloomberg (Equity)	PF IN		
Market cap (USDm)	1,431	Market cap (INRm)	65,180		
Free float (%)	57	Enterprise value (INRm)	81,518		
Country	India	Sector	Personal Products		
Analyst	Percy Panthaki	Contact	+9122 2268 1240		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

Persistent, PSYS IN, N(V)

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	500 410 22	Index Bloomberg	Bombay SE Sensitive Index PSYS IN
Atul Agrawal* Associate Bangalore	Performance Absolute Relative (%)	1M -3.2 1.4	3M -1.6 3.6	12M Market cap (USDm) Free float (%) 360 50

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ Persistent Systems is a recently listed IT services company focused on offshore product development (OPD).
- ▶ Clients include 37 companies with revenues in excess of USD1bn (with average R&D spend of c18%).
- ▶ The company has delivered industry-leading top line growth over the last five years (c42%) and we conservatively assume 23% annual sales growth over the next three years.

Key points

- ▶ Persistent has an early mover advantage of working with its clients in next-generation technologies such as cloud computing, enterprise mobility and collaboration tools. Additionally, we expect Persistent's core business (OPD for telecom and software infrastructure companies) to accelerate in 2011/12.
- ▶ While top-line visibility is improving, the increased pressure on margins is likely to put downward pressure on the FY12 consensus estimates. Battling high attrition, the company has provided an interim wage hike of c10%, effective January 2011.
- ▶ While we expect margins to recover through FY12, another round of increments in April or in the later quarters will be tough to absorb and is likely to remain a concern in the near term.

Valuation and risks

- ▶ We value Persistent at a PE of 12x on our CY12e EPS at INR500. Our multiple of 12x is in line with the historical Indian mid-cap IT sector multiple.
- ▶ Upside risk is early margin recovery as the company is able to grow its non-linear revenues faster than the group average. Downside risks – INR appreciation, macro-economic weakness and further pressure on margins due to wage inflation.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	6,012	7,671	9,486	11,637	PE* (x)	12.8	12.0	12.9	9.5
EBITDA	1,464	1,566	2,010	2,674	EV/EBITDA (x)	7.8	7.0	5.2	3.6
EBIT	1,128	1,160	1,535	2,092	EV/sales (x)	1.9	1.4	1.1	0.8
Net income	1,150	1,367	1,267	1,731	P/BV (x)	2.1	2.0	1.7	1.5
EPS (INR)	32.06	34.23	31.72	43.32					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Persistent Systems Ltd

Neutral (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	6,012	7,671	9,486	11,637
EBITDA	1,464	1,566	2,010	2,674
Depreciation & amortisation	-335	-407	-474	-582
Operating profit/EBIT	1,128	1,160	1,535	2,092
Net interest	0	0	0	0
PBT	1,241	1,490	1,810	2,337
HSBC PBT	1,241	1,490	1,810	2,337
Taxation	-91	-123	-543	-607
Net profit	1,150	1,367	1,267	1,731
HSBC net profit	1,150	1,367	1,267	1,731

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	1,611	1,272	1,475	1,852
Capex	-476	-767	-854	-1,047
Cash flow from investment	-1,142	-767	-854	-1,047
Dividends	-22	-75	-70	-95
Change in net debt	-2,434	-417	-540	-693
FCF equity	2,518	1,949	2,088	2,495

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	2,318	2,679	3,058	3,524
Current assets	4,258	4,889	5,802	6,937
Cash & others	1,918	2,335	2,875	3,568
Total assets	8,145	9,136	10,429	12,029
Operating liabilities	0	0	0	0
Gross debt	0	0	0	0
Net debt	-3,479	-3,897	-4,437	-5,130
Shareholders funds	6,435	7,714	8,900	10,519
Invested capital	4,659	5,233	5,985	6,892

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	1.2	27.6	23.7	22.7
EBITDA	-18.1	7.0	28.3	33.1
Operating profit	-24.3	2.8	32.4	36.3
PBT	85.1	20.1	21.5	29.1
HSBC EPS	74.0	6.8	-7.3	36.6

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	1.4	1.6	1.7	1.8
ROIC	24.7	21.5	19.2	24.1
ROE	22.2	19.3	15.3	17.8
ROA	17.7	15.8	13.0	15.4
EBITDA margin	24.3	20.4	21.2	23.0
Operating profit margin	18.8	15.1	16.2	18.0
EBITDA/net interest (x)				
Net debt/equity	-54.1	-50.5	-49.9	-48.8
Net debt/EBITDA (x)	-2.4	-2.5	-2.2	-1.9
CF from operations/net debt				

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	32.06	34.23	31.72	43.32
HSBC EPS (diluted)	32.06	34.23	31.72	43.32
DPS	1.94	1.99	1.85	2.52
Book value	199.95	204.42	235.83	278.73

Valuation data

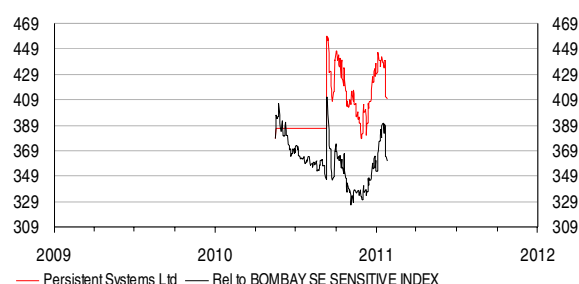
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	1.9	1.4	1.1	0.8
EV/EBITDA (x)	7.8	7.0	5.2	3.6
EV/IC (x)	2.4	2.1	1.7	1.4
PE* (x)	12.8	12.0	12.9	9.5
P/NAV (x)	2.1	2.0	1.7	1.5
FCF yield (%)	17.0	13.1	14.1	16.8
Dividend yield (%)	0.5	0.5	0.5	0.6

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	410.00	Target price (INR)	500.00	Potent' l rtn (%)	22.0
Reuters (Equity)	PERS.BO	Bloomberg (Equity)	PSYS IN		
Market cap (USDm)	360	Market cap (INRm)	16,400		
Free float (%)	50	Enterprise value (INRm)	10,942		
Country	India	Sector	IT Services		
Analyst	Yogesh Aggarwal	Contact	+9122 2268 1246		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

RCOM, RCOM IN, N

Rajiv Sharma* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1239 rajivsharma@hsbc.co.in	Target price (INR) 152.00 Share price (INR) 134.80 Potential return (%) 12.8	Index Bombay SE Sensitive Index Bloomberg RCOM IN
Performance	1M 3M 12M	Market cap (USDm) 6,107 Free float (%) 35
Absolute	-5.0 -24.8 -25.8	
Relative (%)	6.2 -21.3 -35.3	

Note: Price at close of 24 January 2011. Source: HSBC
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Reliance Communications (RCOM) is a dual technology operator and offers services on both the GSM and CDMA platform serving over 125 million subscribers.
- ▶ The company was the second private operator to launch 3G in December 2010; it has won 3G in 13 service areas.
- ▶ It also offers broadband, national long distance and international long distance services and connectivity in the corporate segment. It owns a tower company that provides passive infrastructure to telecom operators.

Key points

- ▶ RCOM has an attractive spectrum bank (GSM, CDMA and 3G spectrum) and is relatively well placed with its fibre backhaul.
- ▶ It has already launched 3G services and its CDMA spectrum advantage should allow it to consolidate leadership in the data card market as GSM incumbents do not enjoy CDMA advantage.
- ▶ We expect EPS to improve 20% in FY12e and 33% in FY13e as 3G services pick up and the company's interest costs fall, driven by its initiatives to replace current debt with low cost debt.

Valuation and risks

- ▶ Our target price of INR152 is based on a blend of DCF and PE valuation and implies a PE multiple of 16.8x for FY12e EPS and 12.6x for FY13e EPS. The stock is currently trading at a multiple of 14.9x FY12e EPS and 5.5x FY12e EV/EBITDA.
- ▶ Monetization of tower assets and introduction of a strategic investor would be key catalysts for the stock. The company's stretched balance sheet limits upside.
- ▶ Upside risk: estimated pick up in 3G; downside risk significant churn on account of MNP.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	222,504	216,103	250,023	284,943	PE* (x)	5.8	17.9	14.9	11.2
EBITDA	78,870	70,529	80,665	94,388	EV/EBITDA (x)	6.0	7.4	5.9	4.5
EBIT	41,404	30,400	35,531	44,322	EV/sales (x)	2.1	2.4	1.9	1.5
Net income	47,344	15,583	18,672	24,893	P/BV (x)	0.7	0.7	0.7	0.6
EPS (INR)	23.07	7.55	9.05	12.06					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Reliance Communications

Neutral

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	222,504	216,103	250,023	284,943
EBITDA	78,870	70,529	80,665	94,388
Depreciation & amortisation	-37,466	-40,129	-45,135	-50,066
Operating profit/EBIT	41,404	30,400	35,531	44,322
Net interest	11,863	-12,272	-10,983	-11,262
PBT	52,891	18,128	24,548	33,060
HSBC PBT	53,267	18,128	24,548	33,060
Taxation	-4,454	-858	-4,173	-6,447
Net profit	47,041	15,583	18,672	24,893
HSBC net profit	47,344	15,583	18,672	24,893

Cash flow summary (INRm)

Cash flow from operations	53,494	89,338	95,984	109,924
Capex	-41,587	-115,142	-40,593	-45,466
Cash flow from investment	-41,445	-114,560	-40,593	-45,466
Dividends	0	0	0	0
Change in net debt	-83,105	42,462	-44,528	-51,041
FCF equity	62,127	-40,969	40,235	46,749

Balance sheet summary (INRm)

Intangible fixed assets	52,215	118,333	118,333	118,333
Tangible fixed assets	663,180	662,745	653,912	645,019
Current assets	164,152	165,286	168,667	172,074
Cash & others	48,585	48,000	48,000	48,000
Total assets	880,746	947,594	942,141	936,655
Operating liabilities	198,855	208,918	227,618	246,561
Gross debt	247,473	289,350	244,822	193,781
Net debt	198,888	241,350	196,822	145,781
Shareholders funds	387,825	401,342	420,014	444,908
Invested capital	632,107	689,446	665,294	640,866

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	-3.0	-2.9	15.7	14.0
EBITDA	-15.1	-10.6	14.4	17.0
Operating profit	-22.7	-26.6	16.9	24.7
PBT	-13.8	-65.7	35.4	34.7
HSBC EPS	-20.0	-67.3	19.8	33.3

Ratios (%)

Revenue/IC (x)	0.3	0.3	0.4	0.4
ROIC	5.5	4.4	4.4	5.5
ROE	11.7	3.9	4.5	5.8
ROA	3.9	3.2	3.1	3.8
EBITDA margin	35.4	32.6	32.3	33.1
Operating profit margin	18.6	14.1	14.2	15.6
EBITDA/net interest (x)		5.7	7.3	8.4
Net debt/equity	50.3	58.9	45.7	31.9
Net debt/EBITDA (x)	2.5	3.4	2.4	1.5
CF from operations/net debt	26.9	37.0	48.8	75.4

Per share data (INR)

EPS Rep (diluted)	22.92	7.55	9.05	12.06
HSBC EPS (diluted)	23.07	7.55	9.05	12.06
DPS	0.00	0.00	0.00	0.00
Book value	188.98	194.45	203.50	215.56

Valuation data

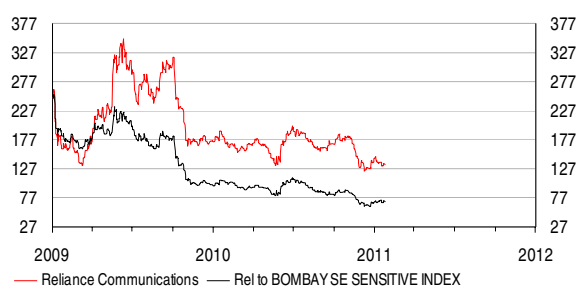
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	2.1	2.4	1.9	1.5
EV/EBITDA (x)	6.0	7.4	5.9	4.5
EV/IC (x)	0.8	0.8	0.7	0.7
PE* (x)	5.8	17.9	14.9	11.2
P/NAV (x)	0.7	0.7	0.7	0.6
FCF yield (%)	22.3	-14.7	14.5	16.8
Dividend yield (%)	0.0	0.0	0.0	0.0

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	134.80	Target price (INR)	152.00	Potent' l rtn (%)	12.8
Reuters (Equity)	RLCM.NS	Bloomberg (Equity)	RCOM IN		
Market cap (USDm)	6,107	Market cap (INRm)	278,231		
Free float (%)	35	Enterprise value (INRm)	519,581		
Country	India	Sector	Diversified Telecoms		
Analyst	Rajiv Sharma	Contact	+91 22 2268 1239		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Reliance Industries, RIL IN, N

Kumar Manish* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1238 kmanish@hsbc.co.in	Target price (INR)	1084				Index	Bombay SE Sensitive Index
	Share price (INR)	971.6				Bloomberg	RIL IN
	Potential return (%)	11.6					
	Performance	1M	3M	12M		Market cap (USDm)	69,801
	Absolute	-8.4	-10.2	-7.8		Free float (%)	50
	Relative (%)	-3.8	-5.2	-21.4			

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- Reliance Industries (RIL) is an integrated company engaged in upstream, refining and petrochemicals business. It also has exposure in the textiles and retail business. The company has a crude processing capacity of 1.24MMbbl/d, which is the largest in any single location in the world.
- We believe volume growth from new petrochemical capacity is likely to come onstream through FY13 and FY14, resulting in a 5-10% CAGR in net profit during FY13-15.

Key points

- We expect its current refining and petrochemical margins to continue into FY12e. However, we believe RIL is unlikely to ramp up its natural gas production from current levels of c52-53m standard cubic metres/day (mmscmd) near term.
- We believe volume growth from core businesses is likely to remain muted for the next few quarters as new petrochemical capacity is likely only through FY13 and FY14, but we also think that new initiatives such as shale gas, telecoms and power are unlikely to result in more than a 5-10% CAGR in earnings over FY13-15e.

Valuation and risks

- We value RIL's downstream business using the average of 13x PE and 8x EV/EBITDA on FY12e earnings (in line with peers). We also value the recent shale acquisitions, Pioneer and Atlas Energy, on a DCF basis.
- Key risks to our earnings and valuation, both on the upside and downside, are refining margins, petrochemical margins and production from KG-D6 being different from our assumptions.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	2,037,397	2,393,503	2,377,731	2,558,786	PE* (x)	20.0	15.8	13.9	12.3
EBITDA	308,939	388,225	430,231	495,601	EV/EBITDA (x)	11.5	9.1	8.2	6.9
EBIT	199,481	253,054	285,670	330,540	EV/sales (x)	1.7	1.5	1.5	1.3
Net income	245,031	201,365	228,930	258,710	P/BV (x)	2.3	2.0	1.8	1.6
EPS (INR)	48.61	61.57	70.00	79.11					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Reliance Industries

Neutral

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	2,037,397	2,393,503	2,377,731	2,558,786
EBITDA	308,939	388,225	430,231	495,601
Depreciation & amortisation	-109,458	-135,171	-144,561	-165,061
Operating profit/EBIT	199,481	253,054	285,670	330,540
Net interest	-20,596	-27,573	-31,403	-46,276
PBT	286,799	250,569	287,077	327,574
HSBC PBT	200,739	250,569	287,077	327,574
Taxation	-42,563	-49,704	-58,790	-70,011
Net profit	245,031	201,365	228,930	258,710
HSBC net profit	158,971	201,365	228,930	258,710

Cash flow summary (INRm)

Cash flow from operations	508,654	339,989	375,157	419,621
Capex	-101,306	-306,820	-316,357	-322,207
Cash flow from investment	-168,073	-306,820	-390,174	-398,905
Dividends	-24,309	-26,784	-30,611	-38,263
Change in net debt	-27,998	-8,447	44,277	921
FCF equity	299,435	8,081	25,989	54,104

Balance sheet summary (INRm)

Intangible fixed assets	0	128,000	126,400	120,000
Tangible fixed assets	1,772,249	1,815,899	1,989,295	2,152,841
Current assets	691,080	841,163	948,482	1,105,834
Cash & others	138,908	304,527	411,440	549,887
Total assets	2,594,452	2,916,184	3,269,116	3,660,313
Operating liabilities	405,009	383,473	378,302	393,668
Gross debt	646,055	803,227	954,416	1,093,784
Net debt	507,147	498,700	542,976	543,897
Shareholders funds	1,410,030	1,584,269	1,779,708	2,000,682
Invested capital	1,919,412	2,097,061	2,274,436	2,435,120

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	34.7	17.5	-0.7	7.6
EBITDA	31.9	25.7	10.8	15.2
Operating profit	12.2	26.9	12.9	15.7
PBT	60.5	-12.6	14.6	14.1
HSBC EPS	-46.7	26.7	13.7	13.0

Ratios (%)

Revenue/IC (x)	1.1	1.2	1.1	1.1
ROIC	9.1	10.1	10.4	11.0
ROE	12.1	13.4	13.6	13.7
ROA	10.4	8.1	8.2	8.5
EBITDA margin	15.2	16.2	18.1	19.4
Operating profit margin	9.8	10.6	12.0	12.9
EBITDA/net interest (x)	15.0	14.1	13.7	10.7
Net debt/equity	35.8	31.3	30.4	27.1
Net debt/EBITDA (x)	1.6	1.3	1.3	1.1
CF from operations/net debt	100.3	68.2	69.1	77.2

Per share data (INR)

EPS Rep (diluted)	82.76	68.01	77.32	87.38
HSBC EPS (diluted)	48.61	61.57	70.00	79.11
DPS	6.37	7.00	8.00	10.00
Book value	431.15	484.43	544.19	611.76

Valuation data

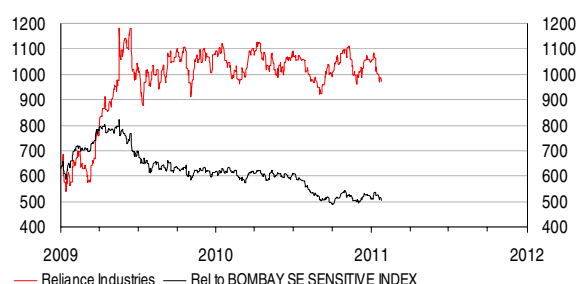
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	1.7	1.5	1.5	1.3
EV/EBITDA (x)	11.5	9.1	8.2	6.9
EV/IC (x)	1.9	1.7	1.5	1.4
PE* (x)	20.0	15.8	13.9	12.3
P/NAV (x)	2.3	2.0	1.8	1.6
FCF yield (%)	9.8	0.3	0.9	1.9
Dividend yield (%)	0.7	0.7	0.8	1.0

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	971.60	Target price (INR)	1084.00	Potent' l rtn (%)	11.6
Reuters (Equity)	RELI.BO	Bloomberg (Equity)	RIL IN		
Market cap (USDm)	69,801	Market cap (INRm)	3,179,943		
Free float (%)	50	Enterprise value (INRm)	3,547,520		
Country	India	Sector	Oil & Gas		
Analyst	Kumar Manish	Contact	+91 22 2268 1238		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Shoppers Stop, SHOP IN, UW

Percy Panthaki * Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1240 percypanthaki@hsbc.co.in	Target price (INR)	309			Index	Bombay SE Sensitive Index
	Share price (INR)	364.75			Bloomberg	SHOP IN
	Potential return (%)	-15				
	Performance	1M	3M	12M	Market cap (USDm)	658
	Absolute	-2.0	3.4	100.7	Free float (%)	42
	Relative (%)	3.4	9.7	78.1		

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- Shoppers Stop is predominantly a department store player in India with c2.5m sq ft of space in operation. It is positioned in the "bridge to luxury" segment which benefits from the growing middle class / upper middle class segment in India. EBITDA margins for the business are c8%, which is lower than regional players due to the MRP (maximum retail price) regime that prevents Shoppers Stop from charging a premium over traditional retail. Management quality is excellent and steps to improve merchandise mix and margins are in the right direction. The company also operates hypermarkets through its subsidiary under the brand Hypercity, which has not yet reached break even.

Key points

- Same store sales growth has plateaued and FY12 will struggle to show teens growth off a high base.
- Margins have recovered and although there is room for upside, it isn't much.
- Valuations have factored in the positives and we look for a slowdown in SSS growth as a trigger for a stock correction.

Valuation and risks

- Our target price of INR309 is based on SOTP. We value Shoppers Stop business at INR560 based on forward EV/EBITDA of 12x applied to Sep-12e EBITDA. We value the 51% stake in Hypercity at INR58 on a DCF basis. Our FY13e EPS is INR9.64, and we expect a 3-year (FY10-13e) CAGR of 23.5%. The stock is currently valued at 16.7x FY12e EBITDA.
- Upside risk: Improvement in consumer demand; faster than expected break even in new formats.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	16046	19021	22656	27722	PE* (x)	71.3	56.0	44.6	37.8
EBITDA	1157	1430	1754	2193	EV/EBITDA (x)	27.5	20.5	16.7	13.2
EBIT	776	962	1178	1534	EV/sales (x)	2.0	1.5	1.3	1.0
Net income	359	561	705	830	P/BV (x)	9.2	3.8	3.5	3.2
EPS (INR)	5.12	6.51	8.19	9.64					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Shoppers Stop Ltd

Underweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	16,046	19,021	22,656	27,722
EBITDA	1,157	1,430	1,754	2,193
Depreciation & amortisation	-381	-468	-576	-659
Operating profit/EBIT	776	962	1,178	1,534
Net interest	-254	-120	-120	-150
PBT	522	842	1,058	1,384
HSBC PBT	522	842	1,058	1,384
Taxation	-164	-283	-356	-465
Net profit	359	561	705	830
HSBC net profit	359	561	705	830

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	1,081	1,008	1,101	1,659
Capex	-469	-1,760	-1,094	-1,100
Cash flow from investment	-782	-1,758	-1,092	-1,189
Dividends	2	-80	-75	-75
Change in net debt	-320	-2,575	66	-395
FCF equity	360	-752	7	559

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	508	508	508	508
Tangible fixed assets	3,181	4,473	4,991	5,433
Current assets	4,017	6,203	7,481	9,511
Cash & others	92	1,667	2,301	3,696
Total assets	7,751	11,230	13,027	15,498
Operating liabilities	2,864	3,457	3,924	4,639
Gross debt	2,212	1,212	1,912	2,912
Net debt	2,120	-454	-389	-783
Shareholders funds	2,812	6,703	7,333	8,088
Invested capital	4,669	5,985	6,682	7,042

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	12.2	18.5	19.1	22.4
EBITDA	382.9	23.6	22.7	25.0
Operating profit		23.9	22.6	30.2
PBT		61.4	25.8	30.8
HSBC EPS		27.3	25.7	17.7

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	3.5	3.6	3.6	4.0
ROIC	11.7	12.0	12.4	14.8
ROE	13.6	11.8	10.0	10.8
ROA	6.9	6.7	6.5	7.1
EBITDA margin	7.2	7.5	7.7	7.9
Operating profit margin	4.8	5.1	5.2	5.5
EBITDA/net interest (x)	4.5	11.9	14.6	14.6
Net debt/equity	81.7	-7.0	-5.5	-10.0
Net debt/EBITDA (x)	1.8	-0.3	-0.2	-0.4
CF from operations/net debt	51.0			

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (fully diluted)	5.12	6.51	8.19	9.64
HSBC EPS (fully diluted)	5.12	6.51	8.19	9.64
DPS	1.49	1.49	1.49	1.49
Book value	39.76	94.77	103.68	114.35

Valuation data

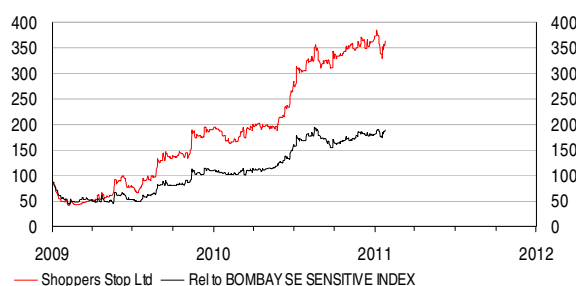
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales	2.0	1.5	1.3	1.0
EV/EBITDA	27.5	20.5	16.7	13.2
EV/IC	6.8	4.9	4.4	4.1
PE*	71.3	56.0	44.6	37.8
P/Book value	9.2	3.8	3.5	3.2
FCF yield (%)	1.2	-2.5	0.0	1.9
Dividend yield (%)	0.2	0.2	0.2	0.2

Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	364.75	Target price (INR)	309	Potent'l return (%)	-15
Reuters (Equity)	SHOP.BO	Bloomberg (Equity)	SHOP IN		
Market cap (USDm)	658	Market cap (INRm)	29,960		
Free float (%)	42	Enterprise value (INRm)	29,288		
Country	India	Sector	Multiline Retail		
Analyst	Percy Panthaki	Contact	+91 22 2268 1240		

Price relative



Source: HSBC

Note: price at close of 24 Jan 2011

Simplex, SINF IN, N(V)

Ashutosh Narkar* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1474 ashutoshnarkar@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	494 349 41.5	Index Bloomberg	Bombay SE Sensitive Index SINF IN
	Performance	1M 3M 12M	Market cap (USDm)	379
	Absolute	-16.0 -27.8 -33.2	Free float (%)	51
	Relative (%)	-11.9 -24.0 -41.2		

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Incorporated in Kolkata in 1924 as Simplex Concrete Piles (India) with British ownership to undertake civil engineering and piling catering to India and South East Asia, Simplex Infrastructure was taken over by the current promoters in 1947.
- ▶ The company has a diversified order book across which buildings contribute c21% and transport 16%, urban infrastructure 14%, power 25% and industrial 17%. The international segment contributes c18% of the order book. Private sector orders dominate the order book with a share of 57%.

Key points

- ▶ Simplex management changed its stance on order book accretion during FY11 and now plans to aggressively target order inflows. This is evident in order inflows of INR37bn during 1H FY11 (30% of the order book). However, new orders will take 3-6 months to percolate into revenues, and hence we expect muted FY11 top line growth of 9% accelerating to 19% during FY12.
- ▶ We like Simplex's order book quality as management has historically restrained from bidding for low margin projects (we expect stable EBITDA margin of 10-10.5%). We forecast earnings to grow at c21% CAGR over FY11-13e.

Valuation and risks

- ▶ We value Simplex at INR494 (12x FY12e EPS). Our target PE of 12x is in line with its peers valued between 10-12x.
- ▶ Execution delays coupled with working capital deterioration are key downside risks to our valuation and a faster than expected scale up in order book is a key upside risk.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	44,538	48,526	57,647	69,114	PE* (x)	14.1	12.3	9.7	7.5
EBITDA	4,440	4,918	5,763	6,843	EV/EBITDA (x)	6.6	6.6	5.6	5.0
EBIT	2,907	3,322	4,194	5,208	EV/sales (x)	0.7	0.7	0.6	0.5
Net income	1,226	1,405	1,784	2,309	P/BV (x)	1.6	1.5	1.3	1.1
EPS (INR)	24.69	28.29	35.92	46.50					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Simplex Infrastructure

Neutral (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	44,538	48,526	57,647	69,114
EBITDA	4,440	4,918	5,763	6,843
Depreciation & amortisation	-1,534	-1,596	-1,569	-1,636
Operating profit/EBIT	2,907	3,322	4,194	5,208
Net interest	-996	-1,196	-1,503	-1,733
PBT	1,911	2,126	2,691	3,475
HSBC PBT	1,911	2,126	2,691	3,475
Taxation	-685	-721	-907	-1,166
Net profit	1,226	1,405	1,784	2,309
HSBC net profit	1,226	1,405	1,784	2,309

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	1,482	-910	3,542	2,363
Capex	-1,044	-1,200	-1,800	-2,000
Cash flow from investment	-938	-1,089	-1,651	-1,840
Dividends	116	128	139	151
Change in net debt	884	3,434	-100	1,521
FCF equity	-558	-3,306	239	-1,369

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	12,280	11,884	12,115	12,479
Current assets	29,030	34,695	40,645	48,884
Cash & others	1,126	692	1,792	2,272
Total assets	41,340	46,609	52,790	61,393
Operating liabilities	17,540	18,523	22,022	26,420
Gross debt	13,020	16,020	17,020	19,020
Net debt	11,894	15,328	15,228	16,748
Shareholders funds	10,590	11,867	13,512	15,670
Invested capital	22,644	27,364	28,946	32,672

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	-5.1	9.0	18.8	19.9
EBITDA	2.4	10.8	17.2	18.8
Operating profit	-4.3	14.3	26.3	24.2
PBT	13.4	11.3	26.6	29.1
HSBC EPS	1.5	14.6	27.0	29.4

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	2.0	1.9	2.0	2.2
ROIC	8.6	8.8	9.9	11.2
ROE	12.1	12.5	14.1	15.8
ROA	4.7	5.2	5.8	6.2
EBITDA margin	10.0	10.1	10.0	9.9
Operating profit margin	6.5	6.8	7.3	7.5
EBITDA/net interest (x)	4.5	4.1	3.8	3.9
Net debt/equity	112.3	129.2	112.7	106.9
Net debt/EBITDA (x)	2.7	3.1	2.6	2.4
CF from operations/net debt	12.5		23.3	14.1

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	24.69	28.29	35.92	46.50
HSBC EPS (diluted)	24.69	28.29	35.92	46.50
DPS	2.00	2.20	2.40	2.60
Book value	213.23	238.95	272.06	315.52

Valuation data

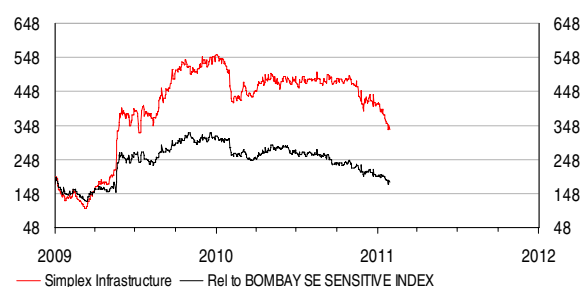
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	6.6	6.6	5.6	5.0
EV/IC (x)	1.3	1.2	1.1	1.0
PE* (x)	14.1	12.3	9.7	7.5
P/NAV (x)	1.6	1.5	1.3	1.1
FCF yield (%)	-3.2	-19.2	1.4	-7.9
Dividend yield (%)	0.6	0.6	0.7	0.7

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	349.00	Target price (INR)	494.00	Potent' l rtn (%)	41.5
Reuters (Equity)	SINF.BO	Bloomberg (Equity)	SINF IN		
Market cap (USDm)	379	Market cap (INRm)	17,266		
Free float (%)	51	Enterprise value (INRm)	32,564		
Country	India	Sector	Construction & Engineering		
Analyst	Ashutosh Narkar	Contact	+91 22 2268 1474		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

State Bank of India, SBIN IN, N

Tejas Mehta * Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	2,740 2,695 3	Index Bloomberg	Bombay SE Sensitive Index SBIN IN
Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Performance Absolute Relative (%)	1M -2.2 2.5	3M -15.9 -11.5	12M 29.1 13.7
			Market cap (USDm) Free float (%)	37,407 57

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ SBI is the largest state-owned bank in India. In addition to banking services the bank, through its subsidiaries, provides a range of financial services, which include life insurance, merchant banking, mutual funds, credit cards, factoring, security trading, pension fund management and primary dealership in the money market. The bank operates in four business segments – treasury, corporate banking, retail banking and other banking business.
- ▶ The State Bank Group, with over 16,000 branches, has the largest banking branch network in India. The bank has 131 overseas offices spread over 32 countries. It is the 10th most reputed company in the world according to Forbes.

Key points

- ▶ In Q3FY11 results, SBI surprised positively with a steep increase in margins and lower than expected provisions. Improving CASA at 48% and lower cost of funds helped boost margins.
- ▶ Going forward, we expect margins to slip 10bps as deposit repricing catches up. Also CASA is unlikely to increase from current levels; but continued improvement in credit costs and relief post Sep-11 after 70% coverage is achieved is likely to help earnings grow 8% (diluted) in FY12e and recover to 25% in FY13e as margins stabilise.

Valuation and risks

- ▶ With the stock significantly underperforming the market by 30% since its peak in Oct-10, we see an entry opportunity materialising at 10% lower levels. We thus have a Neutral rating on the stock.
- ▶ We expect FY11-13e EPS CAGR at 16%. We value SBI using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). Target PE and PB multiples for the stock are 11.7x and 1.8x, respectively.
- ▶ Upside risks include better than expected fee growth and greater pricing power. Downside risks are unexpected slippage in asset quality and a spike in operational costs.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	386,396	496,859	560,321	652,237	PE* (x)	18.7	14.3	13.2	10.6
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	183,209	267,109	302,295	358,171	EV/sales (x)	na	na	na	na
Net income	91,661	119,784	142,830	179,151	P/BV (x)	2.6	2.3	1.8	1.6
EPS (INR)	144.4	188.7	203.6	255.4					

*Based on HSBC EPS (diluted). Source: HSBC

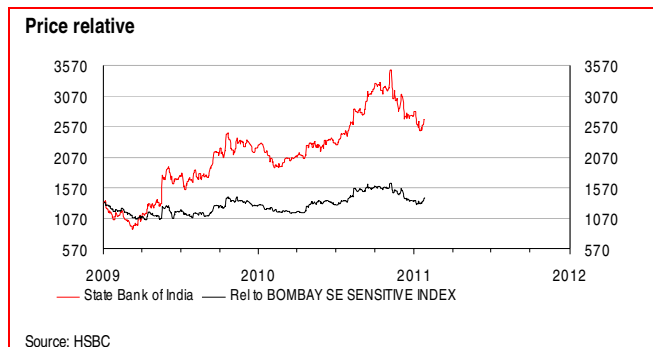
Financials & valuation: State Bank of India

Neutral

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary (INR m)				
Net Interest Income	236,714	334,751	371,902	435,260
Non-interest Income	149,682	162,109	188,419	216,978
Net fees/commission	96,409	117,887	139,853	161,908
Trading profits	26,903	13,665	14,381	14,886
Other	26,370	30,556	34,185	40,184
Total Operating income	386,396	496,859	560,321	652,237
Operating expense	203,187	229,750	258,026	294,067
Staff costs	127,546	145,741	164,169	184,825
Other oper expenses	75,640	84,009	93,857	109,242
PPOP	183,209	267,109	302,295	358,171
Provisions	43,948	84,201	84,487	85,484
Bad debt	51,479	77,511	76,793	77,370
Other	(7,530)	6,690	7,694	8,114
Other non-oper profit(loss)	-	-	-	-
HSBC PBT	139,261	182,908	217,808	272,687
Exceptionals	-	-	-	-
Profit-before tax	139,261	182,908	217,808	272,687
Taxation	47,600	63,124	74,978	93,535
PAT	91,661	119,784	142,830	179,151
Minorities + pref dividend	-	-	-	-
Attributable profit	91,661	119,784	142,830	179,151
HSBC attributable profit	91,661	119,784	142,830	179,151
Balance sheet summary (INRM)				
Total assets	10,534,137	11,943,197	13,881,542	16,080,763
Customer loans (net)	6,319,142	7,549,967	9,198,870	11,039,681
Investment assets	2,857,901	2,886,778	3,043,617	3,249,482
Other assets	1,357,095	1,506,451	1,639,054	1,791,600
Total Liabilities	9,874,645	11,189,176	12,819,165	14,880,276
Customer deposits	8,041,162	9,267,036	10,944,558	12,925,925
Debt securities issued	738,372	787,780	834,962	885,613
Other liabilities	1,095,111	1,134,360	1,039,645	1,068,738
Total capital	659,492	754,021	1,062,376	1,200,487
Ordinary equity	659,492	754,021	1,062,376	1,200,487
Minorities + other capital	-	-	-	-
IEA (avg)	9,585,283	10,662,173	12,221,114	14,207,724
IBL (avg)	8,866,436	9,945,338	11,425,221	13,273,646
Capital adequacy (%)				
RWA (INRM)	8,922,031	10,260,336	11,866,165	13,879,796
Core tier 1	9.5%	9.4%	10.7%	10.0%
Total tier 1	9.5%	9.4%	10.7%	10.0%
Total capital	13.4%	13.2%	14.0%	12.9%
Per share data (INR)				
EPS reported (fully diluted)	144.4	188.7	203.6	255.4
HSBC EPS (fully diluted)	144.4	188.7	203.6	255.4
DPS	30.0	34.0	42.0	50.0
NAV	1,038.8	1,187.7	1,514.3	1,711.2
NAV (including goodwill)	1,038.8	1,187.7	1,514.3	1,711.2
ROAA deconstruction				
Net interest income	2.35	2.98	2.88	2.91
Total interest income	7.04	7.29	7.60	7.72
Total interest expense	4.69	4.31	4.72	4.82
Net fees & commission	0.96	1.05	1.08	1.08
Other income	0.53	0.39	0.38	0.37
Operating income	3.83	4.42	4.34	4.35
Operating expenses	2.01	2.04	2.00	1.96
Staff costs	1.26	1.30	1.27	1.23
Other oper exp	0.75	0.75	0.73	0.73
PPOP	1.82	2.38	2.34	2.39
Provisions	0.44	0.75	0.65	0.57
Non-op items	-	-	-	-
PBT	1.38	1.63	1.69	1.82
Taxation	0.47	0.56	0.58	0.62
PAT	0.91	1.07	1.11	1.20

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (YoY %)				
Net interest income	13.4	41.4	11.1	17.0
Non-interest income	17.9	8.3	16.2	15.2
Operating expense	29.8	13.1	12.3	14.0
PPOP	2.3	45.8	13.2	18.5
Provisions	17.7	91.6	0.3	1.2
PBT	(1.8)	31.3	19.1	25.2
PAT	0.5	30.7	19.2	25.4
Customer loans (net)	16.5	19.5	21.8	20.0
Total Assets	9.2	13.4	16.2	15.8
RWA	15.6	15.0	15.7	17.0
Customer deposits	8.4	15.2	18.1	18.1
Ratios (%)				
NIM	2.47	3.14	3.04	3.06
Gross yield	7.41	7.68	8.03	8.14
Cost of funds	5.34	4.87	5.33	5.44
Spread	2.07	2.81	2.70	2.71
NPL/gross loans	3.05	3.29	3.27	3.14
Credit cost	0.9	1.1	0.9	0.8
Coverage	44.4	54.2	58.4	60.5
NPL/RWA	2.2	2.5	2.6	2.5
Provision/RWA	1.0	1.3	1.5	1.5
Net write-off/RWA	-	-	-	-
NPL/NTE	29.6	33.6	28.9	29.5
Net loans/total assets	60.0	63.2	66.3	68.7
RWA/total assets	84.7	85.9	85.5	86.3
Loans/deposits	78.6	81.5	84.0	85.4
Avg IEA/avg total assets	95.0	94.9	94.6	94.8
Avg IBL/avg total liab	93.6	94.4	95.2	95.8
Cost/income	52.6	46.2	46.0	45.1
Non-int income/total income	38.7	32.6	33.6	33.3
ROAA (including goodwill)	0.91	1.07	1.11	1.20
ROAE (including goodwill)	14.8	16.9	15.7	15.8
Return on avg tier 1	11.9	13.5	12.8	13.5
Leverage (x)	16.3	15.9	14.2	13.2
Valuation data				
PE (diluted EPS)	18.7	14.3	13.2	10.6
P/PPOP	9.3	6.4	6.3	5.3
P/BVPS	2.6	2.3	1.8	1.6
P/NTE	2.6	2.3	1.8	1.6
Dividend yield (x)	1.1	1.3	1.6	1.9
P/Deposit	0.21	0.18	0.17	0.15
P/Asset	0.16	0.14	0.14	0.12

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Jan 2011

Sun Pharma, SUNP IN, N

Girish Bakhru* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1638 girishbakhru@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	545.00 484.75 12.4	Index Bloomberg	Bombay SE Sensitive Index SUNP IN
Damayanti Kerai* Associate Bangalore	Performance Absolute Relative (%)	1M 2.4 7.4	3M 13.3 19.3	12M 69.3 49.0
			Market cap (USDm) Free float (%)	10,958 31.1%

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ Sun Pharma is a pharmaceuticals company engaged in manufacturing and marketing pharmaceuticals formulations and Active Pharmaceutical Ingredients (APIs) primarily in India and the US. It is the sixth largest player in domestic formulations, with over 530 products at the end of FY10. Sun has the highest share in chronic therapies (>65%) among Indian companies.

Key points

- ▶ Taro acquisition to boost Sun Pharma's US business: following the Taro consolidation, US contribution to total company revenue has increased more than 45% and we expect Sun Pharma to emerge as the leading Indian generics manufacturer in the US, with turnover of cUSD700m in FY12e. Taro acquisition has strengthened SUNP's ANDA pipeline in the US with Taro's 150 ANDAs, of which c70% are in the niche dermatological space.
- ▶ Adjusted domestic formulations growth at 20% for FY10-13e has been above peers. As of September 2010 ORG data, Sun has a market share of 3.7% in the domestic market with five leading therapies – cardiology, psychiatry, neurology, gastroenterology and diabetes.
- ▶ We forecast a CAGR of c24% in domestic formulations over FY10-13e and c17% overall sales CAGR (ex-Taro). US growth (including Taro) is estimated at c48% and includes upsides from generics Eloxatin, Gemzar and Stalevo.

Valuation and risks

- ▶ We value Sun Pharma at INR545 based on 24x Dec-12e EPS of INR22.3 and adding INR10 for para-IV value. We value the base business at a 20% premium to the 5-year historical sector average of 22x, accounting for its higher growth than peers in the domestic market and a relatively strong balance sheet (>USD600m net cash).
- ▶ Key risks include negative development in the litigation over generic Protonix tablets and further risks due to ongoing FDA issues at Caraco.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	38,086	59,247	72,312	82,619	PE* (x)	62.6	34.4	24.2	21.0
EBITDA	11,645	18,606	22,852	26,913	EV/EBITDA (x)	40.0	25.9	20.7	17.2
EBIT	10,112	16,872	20,618	24,179	EV/sales (x)	12.2	8.1	6.5	5.6
Net income	8,018	14,595	20,733	23,897	P/BV (x)	1.1	1.0	0.8	0.7
EPS (INR)	7.74	14.10	20.02	23.08					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Sun Pharma

Neutral

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	38,086	59,247	72,312	82,619
EBITDA	11,645	18,606	22,852	26,913
Depreciation & amortisation	-1,533	-1,734	-2,234	-2,734
Operating profit/EBIT	10,112	16,872	20,618	24,179
Net interest	1,138	1,523	1,860	2,560
PBT	14,148	19,363	23,278	27,939
HSBC PBT	14,148	19,363	23,278	27,939
Taxation	-679	-846	-1,630	-2,248
Net profit	13,511	18,015	20,733	24,758
HSBC net profit	8,018	14,595	20,733	23,897

Cash flow summary (INRm)

Cash flow from operations	10,328	567	17,365	19,529
Capex	-2,920	-13,040	-3,000	-3,000
Cash flow from investment	-15,198	2,076	-6,916	-8,933
Dividends	-3,321	-3,759	-4,511	-5,413
Change in net debt	-1,529	11,513	-8,938	-10,183
FCF equity	4,510	-13,442	13,565	15,329

Balance sheet summary (INRm)

Intangible fixed assets	4,060	6,896	6,896	6,896
Tangible fixed assets	16,776	25,247	26,013	26,279
Current assets	67,785	90,916	108,384	127,179
Cash & others	36,737	26,728	35,417	45,349
Total assets	88,621	123,058	141,293	160,354
Operating liabilities	7,579	21,035	23,297	23,263
Gross debt	1,712	3,217	2,967	2,717
Net debt	-35,025	-23,512	-32,450	-42,633
Shareholders funds	78,289	92,545	108,767	128,112
Invested capital	44,306	75,296	82,579	91,741

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	-9.0	55.6	22.1	14.3
EBITDA	-37.5	59.8	22.8	17.8
Operating profit	-41.9	66.9	22.2	17.3
PBT	-27.4	36.9	20.2	20.0
HSBC EPS	-34.7	82.0	42.1	15.3

Ratios (%)

Revenue/IC (x)	0.9	1.0	0.9	0.9
ROIC	23.3	27.0	24.3	25.5
ROE	10.8	17.1	20.6	20.2
ROA	15.9	17.5	16.4	17.0
EBITDA margin	30.6	31.4	31.6	32.6
Operating profit margin	26.6	28.5	28.5	29.3
EBITDA/net interest (x)				
Net debt/equity	-43.7	-23.7	-28.1	-31.6
Net debt/EBITDA (x)	-3.0	-1.3	-1.4	-1.6
CF from operations/net debt				

Per share data (INR)

EPS Rep (diluted)	13.05	17.40	20.02	23.91
HSBC EPS (diluted)	7.74	14.10	20.02	23.08
DPS	2.75	3.30	3.96	4.75
Book value	422.00	498.84	586.28	690.56

Valuation data

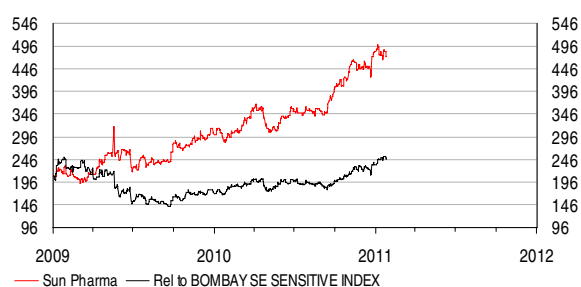
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	12.2	8.1	6.5	5.6
EV/EBITDA (x)	40.0	25.9	20.7	17.2
EV/IC (x)	10.5	6.4	5.7	5.0
PE* (x)	62.6	34.4	24.2	21.0
P/NAV (x)	1.1	1.0	0.8	0.7
FCF yield (%)	0.9	-2.7	2.7	3.0
Dividend yield (%)	0.6	0.7	0.8	1.0

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	484.75	Target price (INR)	545.00	Potent' l rtn (%)	12.4
Reuters (Equity)	SUN.BO	Bloomberg (Equity)	SUNP IN		
Market cap (USDm)	10,958	Market cap (INRm)	499,235		
Free float (%)	31	Enterprise value (INRm)	482,314		
Country	India	Sector	Pharmaceuticals		
Analyst	Girish Bakhru	Contact	+912 22 2681638		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

TCS, TCS IN, OW

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	1300 1209.2 7.5	Index Bloomberg	Bombay SE Sensitive Index TCS IN
Atul Agrawal* Associate Bangalore	Performance Absolute Relative (%)	1M 5.7 10.8	3M 15.9 22.1	12M 59.7 40.6
			Market cap (USDm) Free float (%)	51,950 15

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ TCS is India's largest IT Services company, with significant exposure to high growth areas like BFSI.
- ▶ BPO operations contribute c11% of revenues and the business is the highest growing segment in the Indian IT space. The segment's contribution to revenues increased in the quarter ended Mar09 after acquisition of Citi Group's captive unit.

Key points

- ▶ Expect operational outperformance to continue in the near term. TCS will remain the key beneficiary of continued demand in the banking and financial services sector (BFSI).
- ▶ Furthermore, early signs of revival in the enterprise software market (SAP) are visible and with a lag of 2-3 quarters would flow through the revenues of TCS as well.
- ▶ We expect EBITDA margins to remain stable in FY12 as employee pyramid and non-linear growth offsets wage inflation pressure.

Valuation and risks

- ▶ We value TCS on a PE of 22x our CY12e earnings (in line with Infosys), yielding a target price of INR1,300. We have an Overweight rating on TCS. The stock is currently trading at c10% premium to Infosys shares.
- ▶ Risks: Wage inflation and a macro-economic slowdown are the primary risks to our rating for TCS.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	300,289	374,102	468,155	560,383	PE* (x)	34.4	27.3	23.4	20.3
EBITDA	86,839	112,127	138,579	161,608	EV/EBITDA (x)	26.7	20.8	16.7	14.2
EBIT	79,591	103,923	128,280	149,280	EV/sales (x)	7.7	6.2	5.0	4.1
Net income	68,895	86,713	101,067	116,870	P/BV (x)	11.3	9.9	8.8	7.7
EPS (INR)	35.20	44.30	51.64	59.71					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: TCS

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	300,289	374,102	468,155	560,383
EBITDA	86,839	112,127	138,579	161,608
Depreciation & amortisation	7,248	8,203	10,299	12,328
Operating profit/EBIT	79,591	103,923	128,280	149,280
Net interest	1,561	3,115	4,504	5,383
PBT	81,846	108,266	133,476	154,663
HSBC PBT	81,846	108,266	133,476	154,663
Taxation	-12,202	-20,468	-31,324	-36,708
Net profit	68,895	86,713	101,067	116,870
HSBC net profit	68,895	86,713	101,067	116,870

Cash flow summary (INRm)

Cash flow from operations	74,919	91,092	107,738	125,985
Capex	-10,358	-23,568	-23,408	-28,019
Cash flow from investment	-55,266	-31,005	-23,408	-28,019
Dividends	-19,464	-58,969	-70,157	-80,103
Change in net debt	-25,177	9,571	-14,173	-17,863
FCF equity	33,835	-3,245	88,352	102,264

Balance sheet summary (INRm)

Intangible fixed assets	7,082	6,832	6,832	6,832
Tangible fixed assets	41,706	57,071	70,180	85,870
Current assets	138,149	149,104	185,180	224,521
Cash & others	46,773	37,217	51,390	69,253
Total assets	276,213	322,576	371,760	426,792
Operating liabilities	109,029	142,219	176,599	210,957
Gross debt	2,418	2,432	2,432	2,432
Net debt	-44,356	-34,785	-48,958	-66,821
Shareholders funds	209,404	238,207	269,117	305,883
Invested capital	174,620	213,090	230,911	250,900

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	8.0	24.6	25.1	19.7
EBITDA	20.9	29.1	23.6	16.6
Operating profit	20.6	30.6	23.4	16.4
PBT	33.4	32.3	23.3	15.9
HSBC EPS	33.2	25.9	16.6	15.6

Ratios (%)

Revenue/IC (x)	1.9	1.9	2.1	2.3
ROIC	38.8	39.5	42.5	45.4
ROE	37.7	38.7	39.8	40.7
ROA	27.8	29.5	29.5	29.5
EBITDA margin	28.9	30.0	29.6	28.8
Operating profit margin	26.5	27.8	27.4	26.6
EBITDA/net interest (x)				
Net debt/equity	-20.8	-14.4	-17.9	-21.4
Net debt/EBITDA (x)	-0.5	-0.3	-0.4	-0.4
CF from operations/net debt				

Per share data (INR)

EPS Rep (diluted)	35.20	44.30	51.64	59.71
HSBC EPS (diluted)	35.20	44.30	51.64	59.71
DPS	20.00	25.75	30.64	34.98
Book value	106.99	121.71	137.50	156.28

Valuation data

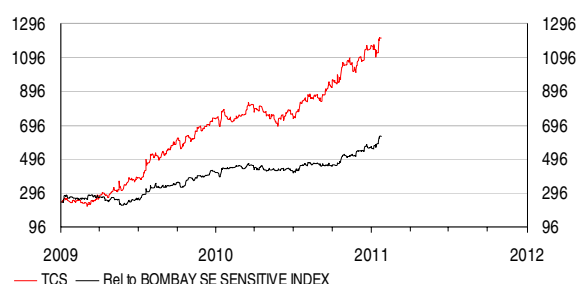
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	7.7	6.2	5.0	4.1
EV/EBITDA (x)	26.7	20.8	16.7	14.2
EV/IC (x)	13.3	10.9	10.0	9.2
PE* (x)	34.4	27.3	23.4	20.3
P/NAV (x)	11.3	9.9	8.8	7.7
FCF yield (%)	1.4	-0.1	3.7	4.3
Dividend yield (%)	1.7	2.1	2.5	2.9

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	1209.20	Target price (INR)	1300.00	Potent' l rtn (%)	7.5
Reuters (Equity)	TCS.BO	Bloomberg (Equity)	TCS IN		
Market cap (USDm)	51,950	Market cap (INRm)	2,366,672		
Free float (%)	15	Enterprise value (INRm)	2,331,886		
Country	India	Sector	IT Services		
Analyst	Yogesh Aggarwal	Contact	+9122 2268 1246		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Tulip Telecom, TTSL IN, OW

Rajiv Sharma* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 22681239 rajivsharma@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	235.00 172.85 36.0	Index Bloomberg	Bombay SE Sensitive Index TTSL IN
	Performance	1M Absolute Relative (%)	3M -11.1 -6.4	12M -10.0 -20.7
			Market cap (USDm) Free float (%)	550 31

Note: Price at close of 24 January 2011. Source: HSBC
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Tulip Telecom is an enterprise data service provider and offers IP-based infrastructure solutions to customers. The company initially focused on the wireless MPLS segment; however, it now offers MPLS on both wireless and fibre.
- ▶ It has built fibre capabilities of over 6,000 kms covering over 300 cities, allowing it to provide additional services like IPLC, DLC, corporate internet and VPN on fibre and thereby increasing its addressable market five-fold.
- ▶ Tulip will be a key player in providing bandwidth for government projects like the Accelerated Power Development and Reform Programme (APDRP), State Wide Area Network (SWAN), Unique Identification (UID) and financial inclusion.

Key points

- ▶ Tulip Telecom has acquired data centre capabilities in Bangalore, taking its data centre space from 1 to 10 lakhs in the next three years. This could result in revenue upside of 30% and EBITDA upside of c50% in the next three years.
- ▶ Investment in fibre has helped the company increase its addressable market share from 17% to 93%. It will help the company to add more clients and get a higher share of customers' wallet from its existing clients.
- ▶ Its last mile wireless connectivity in over 1,700 cities is the largest in India and plays a key role in serving the SME segment. Besides, investment in Qualcomm, which has BWA spectrum in four circles compliments its wireless network.

Valuation and risks

- ▶ Our target price of INR235 is based on a blend of PE and DCF and implies PEs of 9.5x FY12e EPS and 7.5x FY13e EPS. The stock is trading at 6.6x FY12e EPS and 4.5x FY12e EV/EBITDA. We expect EPS to grow 22% in FY12e and 27% in FY13e, driven by other enterprise segments like IPLC, DLC, corporate internet as well as government projects.
- ▶ Risks include lower than estimated pick up in the fibre business and cuts in corporate spending.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	19,655	22,849	27,683	33,296	PE* (x)	9.1	8.5	7.0	5.5
EBITDA	5,249	6,367	7,829	9,510	EV/EBITDA (x)	6.4	5.4	4.4	3.4
EBIT	3,896	4,660	5,911	7,163	EV/sales (x)	1.7	1.5	1.2	1.0
Net income	2,749	2,964	3,603	4,571	P/BV (x)	2.7	2.0	1.6	1.3
EPS (INR)	18.96	20.44	24.85	31.53					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Tulip Telecom

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	19,655	22,849	27,683	33,296
EBITDA	5,249	6,367	7,829	9,510
Depreciation & amortisation	-1,353	-1,707	-1,918	-2,347
Operating profit/EBIT	3,896	4,660	5,911	7,163
Net interest	-716	-738	-942	-901
PBT	3,648	3,937	4,969	6,262
HSBC PBT	3,648	3,937	4,969	6,262
Taxation	-899	-972	-1,367	-1,691
Net profit	2,749	2,964	3,603	4,571
HSBC net profit	2,749	2,964	3,603	4,571

Cash flow summary (INRm)

Cash flow from operations	1,885	3,687	5,836	6,905
Capex	-2,243	-4,454	-4,152	-3,996
Cash flow from investment	-1,076	-6,347	-4,152	-3,996
Dividends	-271	-255	-315	-405
Change in net debt	966	2,346	-427	-1,603
FCF equity	-886	-1,519	741	2,009

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	13,296	16,044	18,278	19,927
Current assets	11,037	14,097	15,420	17,130
Cash & others	3,470	5,000	5,000	5,000
Total assets	24,337	31,631	35,189	38,547
Operating liabilities	2,838	3,282	3,979	4,774
Gross debt	12,191	16,067	15,640	14,037
Net debt	8,721	11,067	10,640	9,037
Shareholders funds	9,279	12,245	15,533	19,699
Invested capital	18,025	21,858	24,720	27,283

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	20.8	16.3	21.2	20.3
EBITDA	54.8	21.3	23.0	21.5
Operating profit	30.9	19.6	26.9	21.2
PBT	27.6	7.9	26.2	26.0
HSBC EPS	8.9	7.8	21.5	26.9

Ratios (%)

Revenue/IC (x)	1.2	1.1	1.2	1.3
ROIC	18.0	17.6	18.4	20.1
ROE	34.1	27.5	25.9	26.0
ROA	14.5	12.6	12.8	14.2
EBITDA margin	26.7	27.9	28.3	28.6
Operating profit margin	19.8	20.4	21.4	21.5
EBITDA/net interest (x)	7.3	8.6	8.3	10.6
Net debt/equity	94.0	90.4	68.5	45.9
Net debt/EBITDA (x)	1.7	1.7	1.4	1.0
CF from operations/net debt	21.6	33.3	54.8	76.4

Per share data (INR)

EPS Rep (diluted)	18.96	20.44	24.85	31.53
HSBC EPS (diluted)	18.96	20.44	24.85	31.53
DPS	1.60	1.76	2.17	2.79
Book value	63.99	84.45	107.12	135.86

Valuation data

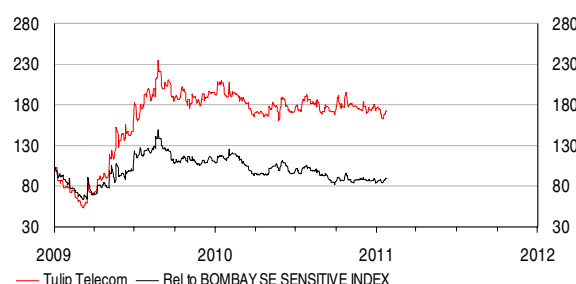
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	1.7	1.5	1.2	1.0
EV/EBITDA (x)	6.4	5.4	4.4	3.4
EV/IC (x)	1.9	1.6	1.4	1.2
PE* (x)	9.1	8.5	7.0	5.5
P/NAV (x)	2.7	2.0	1.6	1.3
FCF yield (%)	-3.5	-6.4	3.1	8.5
Dividend yield (%)	0.9	1.0	1.3	1.6

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	172.85	Target price (INR)	235.00	Potent' l rtn (%)	36.0
Reuters (Equity)	TULP.BO	Bloomberg (Equity)	TTSL IN		
Market cap (USDm)	550	Market cap (INRm)	25,063		
Free float (%)	31	Enterprise value (INRm)	34,643		
Country	India	Sector	Diversified Telecoms		
Analyst	Rajiv Sharma	Contact	+9122 22681239		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Voltas, VOLT IN, N(V)

Rajesh Singla* Analyst HSBC Bank Plc +91 80 3001 3771 rajeshsingla@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	255.00 210.85 20.9	Index Bloomberg	Bombay SE Sensitive Index VOLT IN
	Performance	1M -4.7 -0.1	3M -11.7 -7.1	12M 16.9 2.9
	Absolute Relative (%)		Market cap (USDm) Free float (%)	1,531 72

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Voltas, a Tata Group company, is India's premier engineering company involved in the manufacture and project execution of commercial air conditioning projects. It also manufactures and markets room ACs and other engineering products in material handling, construction and textile machinery domains. It operates in three business segments: a) electromechanical projects and services, b) engineering products and services, and c) unitary cooling products which contributed 65%, 10% and 25% to revenue for FY10, respectively.
- ▶ Voltas has its head office in Mumbai and manufacturing facilities at Pantnagar (in the state of Uttaranchal), Thane (Maharashtra) and the Dadra (a union territory). Voltas primarily caters to the Indian and Middle Eastern markets.
- ▶ Strong brand recall and wide distribution channels spread over 200 cities with 300 dealers and resellers helped Voltas get c15% share in the domestic room AC market.

Key points

- ▶ The company had a closing order book of INR50bn (c1.6x FY10 sales), which has remained flat sequentially. However, the management has reaffirmed that the order execution and order inflow is likely to improve in 2HFY11.
- ▶ In the near term, we expect EPS to grow at CAGR of 7.7% over FY10-13 as we factor in conservative growth in the order book.

Valuation and risks

- ▶ We apply a target PE of 20x (a mid-cycle PE) to FY12e EPS of INR12.8 to arrive at a target price of INR255. The stock is currently trading at PE of 18.6x FY11e earnings (historical band 15-25x).
- ▶ Higher than estimated order inflows and better margins are upside risks.

Financial forecasts (INRm)

Year to Mar	03/2010a	03/2011e	03/2012e	03/2013e	Key ratios	03/2010a	03/2011e	03/2012e	03/2013e
Revenue	48,236	58,363	64,032	67,483	PE* (x)	19.6	18.6	16.5	15.7
EBITDA	4,769	5,414	5,976	6,347	EV/EBITDA (x)	1.3	1.1	1.0	0.9
EBIT	4,555	5,173	5,721	6,096	EV/sales (x)	1.3	1.1	1.0	0.9
Net income	3,560	3,751	4,220	4,451	P/BV (x)	6.4	5.1	4.1	3.4
EPS (INR)	10.76	11.34	12.75	13.45					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Voltas Ltd

Neutral (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	48,236	58,363	64,032	67,483
EBITDA	4,769	5,414	5,976	6,347
Depreciation & amortisation	-214	-240	-255	-251
Operating profit/EBIT	4,555	5,173	5,721	6,096
Net interest	-98	228	403	398
PBT	5,068	5,772	6,511	6,898
HSBC PBT	5,068	5,772	6,511	6,898
Taxation	-1,472	-1,957	-2,208	-2,339
Net profit	3,810	3,751	4,220	4,451
HSBC net profit	3,560	3,751	4,220	4,451

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	4,421	2,723	3,143	4,406
Capex	33	-300	-300	-300
Cash flow from investment	-742	-300	-300	-300
Dividends	-615	-878	-988	-1,042
Change in net debt	-1,581	-123	-354	-1,420
FCF equity	2,883	694	1,038	2,165

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	764	764	764	764
Tangible fixed assets	2,262	2,322	2,367	2,416
Current assets	28,267	35,600	41,357	44,488
Cash & others	4,689	4,812	5,166	6,586
Total assets	33,837	41,229	47,031	50,211
Operating liabilities	19,848	23,443	25,666	25,225
Gross debt	352	352	352	352
Net debt	-4,337	-4,460	-4,815	-6,234
Shareholders funds	10,852	13,725	16,958	20,367
Invested capital	6,756	10,430	13,655	15,857

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	11.5	21.0	9.7	5.4
EBITDA	68.4	13.5	10.4	6.2
Operating profit	73.8	13.6	10.6	6.6
PBT	47.5	13.9	12.8	5.9
HSBC EPS	57.3	5.4	12.5	5.5

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	7.5	6.8	5.3	4.6
ROIC	50.0	39.8	31.4	27.3
ROE	38.0	30.5	27.5	23.9
ROA	11.1	10.4	9.9	9.5
EBITDA margin	9.9	9.3	9.3	9.4
Operating profit margin	9.4	8.9	8.9	9.0
EBITDA/net interest (x)	48.5			
Net debt/equity	-39.5	-32.2	-28.2	-30.4
Net debt/EBITDA (x)	-0.9	-0.8	-0.8	-1.0
CF from operations/net debt				

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	11.51	11.34	12.75	13.45
HSBC EPS (diluted)	10.76	11.34	12.75	13.45
DPS	2.00	2.27	2.55	2.69
Book value	32.80	41.48	51.25	61.55

Valuation data

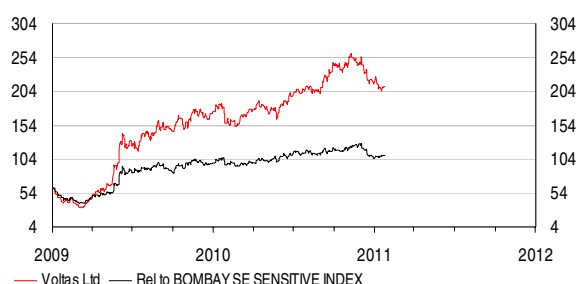
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	1.3	1.1	1.0	0.9
EV/EBITDA (x)	13.2	11.6	10.5	9.6
EV/IC (x)	9.3	6.0	4.6	3.9
PE* (x)	19.6	18.6	16.5	15.7
P/NAV (x)	6.4	5.1	4.1	3.4
FCF yield (%)	4.3	1.0	1.5	3.2
Dividend yield (%)	0.9	1.1	1.2	1.3

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	210.85	Target price (INR)	255.00	Potent' l rtn (%)	20.9
Reuters (Equity)	VOLT.BO	Bloomberg (Equity)	VOLT IN		
Market cap (USDm)	1,531	Market cap (INRm)	69,767		
Free float (%)	72	Enterprise value (INRm)	62,967		
Country	India	Sector	Household Durables		
Analyst	Rajesh Singla	Contact	+91 80 3001 3771		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Welspun Corp, WLCO IN, OW

Puneet Gulati * Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1235 puneetgulati@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	245 161.95 51.3	Index Bloomberg	Bombay SE Sensitive Index WLCO IN
	Performance	1M Absolute Relative (%)	3M -35.1 -30.1	12M -39.3 -52.9
			Market cap (USDm) Free float (%)	727 58

Note: Price at close of 24 January 2011. Source: HSBC

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Business description

- ▶ Welspun is one of the largest line pipe manufacturers in the world. It has the current nameplate capacity of 1.3m tonnes of HSAW (Helical Submerged Arc Welded) pipes, 350k tonnes of LSAW (Longitudinal Submerged Arc Welded) pipes, 250k tonnes of ERW (Electrical Resistance Welding) and 1.5m tonnes of plates and coils.
- ▶ It has 350k tonnes of capacity in US and is setting up 300k tonnes of capacity in Saudi Arabia. It has recently acquired MSK Projects in an attempt to forward integrate in the infrastructure sector.

Key points

- ▶ It has good presence in export markets like the US and the Middle East, which should help it to win large orders. Its capacity expansion is coming well in time to capture the growth in pipeline space.
- ▶ The company has a strong management team with proven track record to undertake and execute large international orders.

Valuation and risks

- ▶ Given the cyclical nature of order inflows, we value the firm on PE. We believe the fundamentals of the firm deserve a multiple of 9x and above, reflecting 17% average ROE and 10% growth. We value the firm on a PE of 8x on FY12e EPS of INR30.7 to reflect higher cost of capital. This implies a target price of INR245.
- ▶ The biggest concern of investors is corporate governance issues. SEBI has currently put an interim restraining order on promoters, preventing them from trading in their own stocks. A final order from the regulator is awaited.
- ▶ The sensitivity of our earnings estimates and target price depends on volume growth and margin trend. We estimate a 10% increase in LSAW pipe volumes will increase net profit by 4%; a 10% increase in HSAW pipe volumes will increase net profit by 7%.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	73,503	72,876	83,942	95,617	PE* (x)	5.8	6.3	5.3	4.3
EBITDA	13,186	13,662	15,703	18,284	EV/EBITDA (x)	3.0	2.8	2.1	1.5
EBIT	11,126	10,811	12,841	15,202	EV/sales (x)	0.5	0.5	0.4	0.3
Net income	6,104	5,840	7,010	8,610	P/BV (x)	1.1	0.9	0.7	0.6
EPS (INR)	28.00	25.58	30.70	37.71					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Welspun Corp Ltd

Overweight

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	73,503	72,876	83,942	95,617
EBITDA	13,186	13,662	15,703	18,284
Depreciation & amortisation	-2,061	-2,851	-2,862	-3,082
Operating profit/EBIT	11,126	10,811	12,841	15,202
Net interest	-2,071	-1,989	-2,214	-2,150
PBT	9,240	9,037	10,842	13,267
HSBC PBT	8,572	9,037	10,842	13,267
Taxation	-3,136	-3,073	-3,686	-4,511
Net profit	6,104	5,840	7,010	8,610
HSBC net profit	6,104	5,840	7,010	8,610

Cash flow summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Cash flow from operations	3,821	17,065	10,680	12,396
Capex	-3,783	-10,000	-3,000	-3,000
Cash flow from investment	-3,863	-10,000	-3,000	-3,000
Dividends	-327	-478	-478	-478
Change in net debt	-8,620	-2,304	-4,419	-6,231
FCF equity	-1,921	5,148	5,539	7,318

Balance sheet summary (INRm)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Intangible fixed assets	0	0	0	0
Tangible fixed assets	38,333	53,401	54,852	56,084
Current assets	51,471	60,892	70,336	79,962
Cash & others	17,028	23,239	27,658	32,189
Total assets	91,350	115,842	126,736	137,594
Operating liabilities	32,291	41,350	45,111	48,900
Gross debt	25,476	29,383	29,383	27,683
Net debt	8,448	6,144	1,726	-4,506
Shareholders funds	29,011	38,288	45,276	53,898
Invested capital	40,485	49,704	52,419	54,956

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	28.1	-0.9	15.2	13.9
EBITDA	107.7	3.6	14.9	16.4
Operating profit	126.4	-2.8	18.8	18.4
PBT	177.0	-2.2	20.0	22.4
HSBC EPS	145.0	-8.7	20.0	22.8

Ratios (%)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Revenue/IC (x)	2.0	1.6	1.6	1.8
ROIC	19.7	15.8	16.6	18.7
ROE	27.4	17.4	16.8	17.4
ROA	8.5	7.0	7.1	7.7
EBITDA margin	17.9	18.7	18.7	19.1
Operating profit margin	15.1	14.8	15.3	15.9
EBITDA/net interest (x)	6.4	6.9	7.1	8.5
Net debt/equity	29.1	15.2	3.6	-8.0
Net debt/EBITDA (x)	0.6	0.4	0.1	-0.2
CF from operations/net debt	45.2	277.7	619.0	

Per share data (INR)

Year to	03/2010a	03/2011e	03/2012e	03/2013e
EPS Rep (diluted)	28.00	25.58	30.70	37.71
HSBC EPS (diluted)	28.00	25.58	30.70	37.71
DPS	2.33	2.00	2.00	2.00
Book value	141.99	187.39	221.59	263.79

Valuation data

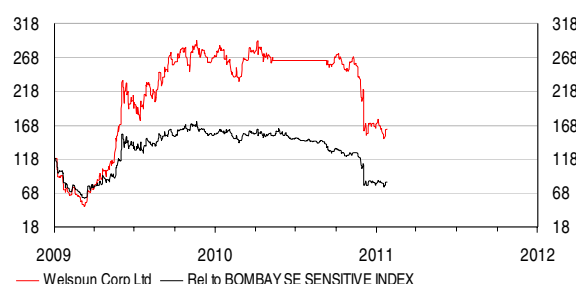
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	0.5	0.5	0.4	0.3
EV/EBITDA (x)	3.0	2.8	2.1	1.5
EV/IC (x)	1.0	0.8	0.6	0.5
PE* (x)	5.8	6.3	5.3	4.3
P/NAV (x)	1.1	0.9	0.7	0.6
FCF yield (%)	-6.1	16.3	17.6	23.2
Dividend yield (%)	1.4	1.2	1.2	1.2

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	161.95	Target price (INR)	245.00	Potent' l rtn (%)	51.3
Reuters (Equity)	WGSR.BO	Bloomberg (Equity)	WLCO IN		
Market cap (USDm)	727	Market cap (INRm)	33,137		
Free float (%)	58	Enterprise value (INRm)	37,684		
Country	India	Sector	Energy Equipment		
Analyst	Puneet Gulati	Contact	+91 22 2268 1235		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Wipro, WPRO IN, N(V)

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	555 443 25	Index Bloomberg	Bombay SE Sensitive Index
Atul Agrawal* Associate Bangalore	Performance Absolute Relative (%)	1M -7.8 -3.4	3M -0.9 4.3	12M 5.8 -6.8
			Market cap (USDm) Free float (%)	23,907 17

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ Wipro is India's third largest IT Services company, founded by Azim Premji.
- ▶ The company derives c75% of revenues from the IT Services business while the balance is accounted for by the IT products and consumer care and lighting business lines.

Key points

- ▶ Organisational restructuring is positive in the long term, with vertical integration likely to result in better sales growth. However, in the near term, this could result in uncertainty and disruption to delivery and therefore revenue growth.
- ▶ Likely revival in telecom spending should benefit Wipro in 2011 and beyond.
- ▶ Likely to face tough supply market in the near term.

Valuation and risks

- ▶ We value Wipro at one-year forward PE of 20x on CY12e EPS, in line with the historical average (a 10% discount to our target multiple for Infosys). The stock is currently trading at a discount to peers (c15%).
- ▶ Upside risks: reorganisation might result in better-than-expected recovery in the business. Downside risks: macro-economic risks and INR appreciation.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	271,957	311,239	375,676	453,064	PE* (x)	22.6	19.8	18.2	14.8
EBITDA	59,770	67,228	82,377	99,178	EV/EBITDA (x)	16.9	14.4	11.2	8.7
EBIT	52,227	58,595	71,957	87,398	EV/sales (x)	3.7	3.1	2.5	1.9
Net income	47,937	54,445	59,829	73,231	P/BV (x)	5.9	4.6	3.6	2.9
EPS (INR)	19.68	22.37	24.44	29.91					

*Based on HSBC EPS (diluted). Source: HSBC

Financials & valuation: Wipro

Neutral (V)

Financial statements

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Profit & loss summary (INRm)				
Revenue	271,957	311,239	375,676	453,064
EBITDA	59,770	67,228	82,377	99,178
Depreciation & amortisation	-7,543	-8,633	-10,420	-11,780
Operating profit/EBIT	52,227	58,595	71,957	87,398
Net interest	4,915	5,268	5,354	7,026
PBT	56,600	64,089	77,402	94,424
HSBC PBT	56,600	64,089	77,402	94,424
Taxation	-9,294	-10,312	-18,213	-21,833
Net profit	47,937	54,445	59,829	73,231
HSBC net profit	47,937	54,445	59,829	73,231

Cash flow summary (INRm)

Cash flow from operations	57,718	36,431	57,543	63,084
Capex	-12,979	-18,674	-18,784	-22,653
Cash flow from investment	-35,765	-11,850	-10,705	-12,993
Dividends	-6,823	0	0	0
Change in net debt	-33,299	-38,791	-47,373	-57,921
FCF equity	35,917	47,964	52,277	64,077

Balance sheet summary (INRm)

Intangible fixed assets	57,813	58,106	58,106	58,106
Tangible fixed assets	53,458	62,795	70,309	79,370
Current assets	201,177	280,261	333,581	392,550
Cash & others	98,938	144,895	192,268	250,189
Total assets	329,928	423,454	484,287	552,318
Operating liabilities	38,748	38,364	46,010	55,470
Gross debt	18,107	25,273	25,273	25,273
Net debt	-80,831	-119,622	-166,995	-224,916
Shareholders funds	196,112	264,402	323,040	388,696
Invested capital	152,483	174,538	187,590	204,355

Ratio, growth and per share analysis

Year to	03/2010a	03/2011e	03/2012e	03/2013e
Y-o-y % change				
Revenue	5.9	14.4	20.7	20.6
EBITDA	18.8	12.5	22.5	20.4
Operating profit	16.4	12.2	22.8	21.5
PBT	24.7	13.2	20.8	22.0
HSBC EPS	20.4	13.6	9.3	22.4

Ratios (%)

Revenue/IC (x)	1.8	1.9	2.1	2.3
ROIC	29.3	30.1	30.4	34.3
ROE	27.9	23.6	20.4	20.6
ROA	15.4	14.6	13.5	14.4
EBITDA margin	22.0	21.6	21.9	21.9
Operating profit margin	19.2	18.8	19.2	19.3
EBITDA/net interest (x)				
Net debt/equity	-41.1	-40.7	-48.2	-55.5
Net debt/EBITDA (x)	-1.4	-1.8	-2.0	-2.3
CF from operations/net debt				

Per share data (INR)

EPS Rep (diluted)	18.94	22.37	24.44	29.91
HSBC EPS (diluted)	19.68	22.37	24.44	29.91
DPS	3.62	0.00	0.00	0.00
Book value	75.22	97.34	121.72	151.07

Valuation data

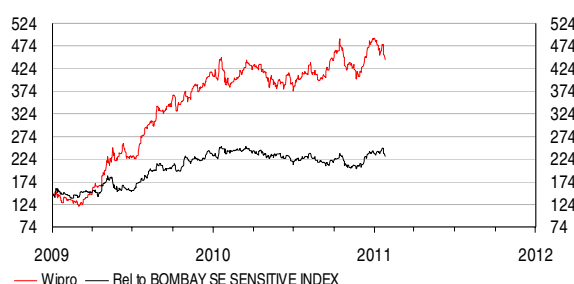
Year to	03/2010a	03/2011e	03/2012e	03/2013e
EV/sales (x)	3.7	3.1	2.5	1.9
EV/EBITDA (x)	16.9	14.4	11.2	8.7
EV/IC (x)	6.6	5.6	4.9	4.2
PE* (x)	22.6	19.8	18.2	14.8
P/NAV (x)	5.9	4.6	3.6	2.9
FCF yield (%)	3.3	4.4	4.8	5.9
Dividend yield (%)	0.8	0.0	0.0	0.0

*Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	443.90	Target price (INR)	555.00	Potent' l rtn (%)	25.0
Reuters (Equity)	WIPR.BO	Bloomberg (Equity)	WPRO IN		
Market cap (USDm)	23,907	Market cap (INRm)	1,089,139		
Free float (%)	17	Enterprise value (INRm)	969,517		
Country	India	Sector	IT Services		
Analyst	Yogesh Aggarwal	Contact	+9122 2268 1246		

Absolute and relative price trends



Source: HSBC

Note: Price at close of 24 Jan 2011

Yes Bank, YES IN, OW

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Target price (INR) Share price (INR) Potential return (%)	427 284 50	Index Bloomberg	Bombay SE Sensitive Index YES IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance Absolute Relative (%)	1M -7.7 -3.2	3M -23.0 -18.9	12M 9.7 -3.5
			Market cap (USDm) Free float (%)	2,164 57

Note: Price at close of 24 January 2011. Source: HSBC

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Business description

- ▶ YES was the last bank to receive a green-field banking licence in 2003. The bank commenced operations in FY05. To date, YES has 170 branches in India, primarily north India-focused, and plans to quadruple the network by FY15.
- ▶ YES is largely a wholesale bank with a corporate-centric loan book. The bank has a market share of c1% of system loans. It offers a range of products and services to corporate and retail customers, including corporate and institutional banking, financial markets, investment banking, corporate finance, branch banking and wealth management.

Key points

- ▶ Despite being a young bank, YES was one of the best performing private sector banks during the last crisis, largely due to the excellent execution skills of the top management led by Mr Rana Kapoor.
- ▶ Going forward, retail expansion on both sides of the balance sheet and higher-than-peer growth expected in the current credit upcycle are significant structural and cyclical opportunities, which will help maintain ROE at 20%+ levels.

Valuation and risks

- ▶ Despite superior return ratios, YES trades at a discount to private banks – at 10x FY12e PE and 2.1x FY12e PB. However, given the structural shift expected to happen over the next few years, the gap should progressively narrow as YES proves its ability to maintain higher margins and outgrow its peers on both balance sheet and earnings.
- ▶ We expect FY11-13e EPS CAGR at 37% with the ROE likely to improve to 25% from 20% and ROA at 1.5%. We value Yes Bank using a weighted average combination of PE (75%), PB (15%), and economic profit model (EPM, 10%). Our target PE and PB multiples for the stock are 13.5x and 2.3x, respectively.
- ▶ Downside risks: Tight liquidity leading to slower growth, asset quality risks and slower branch expansion.

Financial forecasts (INRm)

Year to Mar	2010a	2011e	2012e	2013e	Key ratios	2010	2011e	2012e	2013e
Revenue	13,635	18,430	26,452	35,913	PE* (x)	20.2	13.5	9.9	7.6
EBITDA	na	na	na	na	EV/EBITDA (x)	na	na	na	na
EBIT	8,633	11,618	16,355	21,633	EV/sales (x)	na	na	na	na
Net income	4,777	7,128	9,753	12,682	P/BV (x)	3.1	2.6	2.1	1.7
EPS (INR)	14.1	21.0	28.7	37.3					

*Based on HSBC EPS (diluted). Source: HSBC

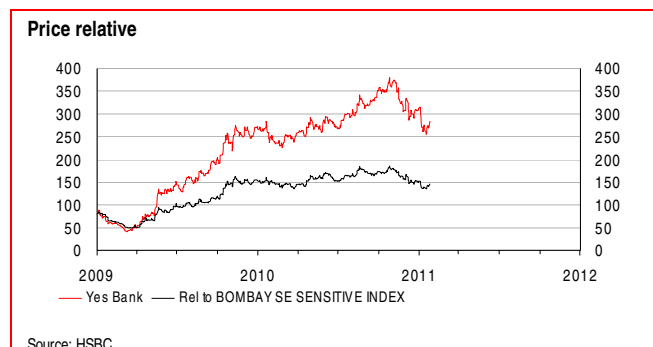
Financials & valuation: Yes Bank

Overweight

Year to	3/2010a	3/2011e	3/2012e	3/2013e
P&L summary(INR m)				
Net Interest Income	7,880	12,309	18,728	25,733
Non-interest Income	5,755	6,121	7,724	10,179
Net fees/commission	3,791	3,694	4,688	6,422
Trading profits	986	1,036	1,139	1,253
Other	978	1,391	1,897	2,504
Total Operating income	13,635	18,430	26,452	35,913
Operating expense	5,002	6,812	10,098	14,279
Staff costs	2,569	3,646	5,499	7,980
Other oper expenses	2,433	3,166	4,598	6,299
PPOP	8,633	11,618	16,355	21,633
Provisions	1,368	900	1,688	2,563
Bad debt	1,265	822	1,586	2,431
Other	104	77	102	132
HSBC PBT	7,265	10,719	14,666	19,070
Profit-before tax	7,265	10,719	14,666	19,070
Taxation	2,487	3,591	4,913	6,389
PAT	4,777	7,128	9,753	12,682
Attributable profit	4,777	7,128	9,753	12,682
HSBC attributable profit	4,777	7,128	9,753	12,682
Balance sheet summary (INRm)				
Total assets	363,825	576,307	794,729	1,060,387
Customer loans (net)	221,931	355,226	497,081	670,556
Investment assets	102,099	161,230	217,430	284,369
Other assets	39,794	59,852	80,218	105,462
Total Liabilities	332,930	539,198	749,178	1,003,942
Customer deposits	267,986	452,384	636,809	864,345
Borrowings	47,491	62,182	75,182	88,474
Other liabilities	17,453	24,631	37,187	51,123
Total capital	30,895	37,109	45,551	56,445
Ordinary equity	30,895	37,109	45,551	56,445
IEA (avg)	282,449	455,307	667,561	905,486
IBL (avg)	257,094	415,021	613,279	832,405
Capital adequacy (%)				
RWA (INRm)	285,000	393,427	548,889	708,781
Core tier 1	12.0%	10.3%	8.9%	8.4%
Total tier 1	12.9%	11.1%	9.6%	9.1%
Total capital	20.7%	17.7%	15.2%	14.2%
Per share data (INR)				
EPS reported (fully diluted)	14.1	21.0	28.7	37.3
HSBC EPS (fully diluted)	14.1	21.0	28.7	37.3
DPS	1.5	2.3	3.3	4.5
NAV	90.6	108.7	133.2	164.7
NAV (including goodwill)	90.6	108.7	133.2	164.7
ROAA deconstruction				
Net interest income	2.66	2.62	2.73	2.77
Total interest income	7.99	8.75	9.00	9.11
Total interest expense	5.34	6.13	6.27	6.33
Net fees & commission	1.28	0.79	0.68	0.69
Other income	0.66	0.52	0.44	0.41
Operating income	4.60	3.92	3.86	3.87
Operating expenses	1.69	1.45	1.47	1.54
Staff costs	0.87	0.78	0.80	0.86
Other oper exp	0.82	0.67	0.67	0.68
PPOP	2.91	2.47	2.39	2.33
Provisions	0.46	0.19	0.25	0.28
PBT	2.45	2.28	2.14	2.06
Taxation	0.84	0.76	0.72	0.69
PAT	1.61	1.52	1.42	1.37

Year to	3/2010a	3/2011e	3/2012e	3/2013e
Growth (YoY %)				
Net interest income	54.7	56.2	52.1	37.4
Non-interest income	31.7	6.4	26.2	31.8
Operating expense	19.5	36.2	48.2	41.4
PPOP	63.6	34.6	40.8	32.3
Provisions	121.7	(34.3)	87.7	51.8
PBT	55.9	47.5	36.8	30.0
PAT	57.2	49.2	36.8	30.0
Customer loans (net)	78.9	60.1	39.9	34.9
Total Assets	58.9	58.4	37.9	33.4
RWA	28.6	38.0	39.5	29.1
Customer deposits	65.7	68.8	40.8	35.7
Ratios (%)				
NIM	2.79	2.70	2.81	2.84
Gross yield	8.39	9.04	9.24	9.33
Cost of funds	6.15	6.95	7.01	7.05
Spread	2.24	2.09	2.24	2.27
NPL/gross loans	0.3	0.2	0.3	0.4
Credit cost	0.73	0.28	0.37	0.42
Coverage	78.4	76.0	78.0	80.0
NPL/RWA	0.2	0.2	0.3	0.4
Provisions/RWA	0.2	0.2	0.2	0.3
Net write-off/RWA	-	-	-	-
NPL/NTE	1.9	2.2	3.1	4.4
Net loans/total assets	61.0	61.6	62.5	63.2
RWA/total assets	78.3	68.3	69.1	66.8
Loans/deposits	82.8	78.5	78.1	77.6
Avg IEA/avg total assets	95.3	96.9	97.4	97.6
Avg IBL/avg total liab	86.7	88.3	89.5	89.7
Cost/income	36.7	37.0	38.2	39.8
Non-int income/total income	42.2	33.2	29.2	28.3
ROAA (including goodwill)	1.61	1.52	1.42	1.37
ROAE (including goodwill)	20.3	21.0	23.6	24.9
Return on avg tier 1	20.3	21.0	23.6	24.9
Leverage (x)	12.6	13.8	16.6	18.2
Valuation data				
PE (diluted EPS)	20.2	13.5	9.9	7.6
P/PPOP	11.2	8.3	5.9	4.5
P/BVPS	3.1	2.6	2.1	1.7
P/NTE	3.1	2.6	2.1	1.7
Dividend yield (x)	0.5	0.8	1.2	1.6
P/Deposit	0.4	0.2	0.2	0.1
P/Asset	0.3	0.2	0.1	0.1

Note: * = Based on HSBC EPS (fully diluted)



Note: Price at close of 24 Jan 2011

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Stocks not under coverage

Adani Enterprises, ADE IN, Not Rated

Arun Kumar* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1778 arun4kumar@hsbc.co.in	Share price (INR)	635.15	Index Bloomberg	Bombay SE Sensitive Index ADE IN
	Performance	1M	3M	12M
	Absolute	2.62	-5.63	36.81
	Relative (%)	4.22	-0.01	27.28
		Market cap (USDm)		15,336

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Adani Enterprises (AEL) is the flagship company of Adani Group and has a variety of businesses in its portfolio. The company started as a trading house and transformed into an asset developer with expansion into power (9.2GW under development), coal mining (four mines in India and the captive Bunyu mine in Indonesia), ports (operates Mundra Port with 55MTPA capacity), in addition to city gas distribution, edible oils, agri logistics and oil and gas exploration.
- ▶ The company has integrated its presence across the power value chain under one roof "AEL" through the IPO of Adani Power (70.3%) and structuring of Mundra Port and SEZ (77.5%) as a subsidiary under AEL in FY10. This resulted in a simplified business model of three key verticals: power, ports and mining.

Key points

- ▶ **Coal trading business – key contributor:** AEL is India's largest coal trader, with 29m tons of thermal coal traded in FY10 (CAGR of c40% over last four years). The trading business contributed 84% of revenues, 81% of EBIT and had 6.3% margins in FY10.
- ▶ **Expansion of power generation capacity, key growth driver:** AEL is planning to scale up its capacity by 12.5x from the current 1.32GW to 16.5GW over the next 5-7 years. The company has secured sales contracts (66%), fuel requirements (64%) and funding (100%) for the 9.2GW of capacity expected to be operational by FY13-14.
- ▶ **Mundra Port and SEZ:** This is India's largest private port and SEZ with cargo handling capacity of 50-55MTPA, which shall be enhanced to 100MTPA. It posted revenue of INR150bn and profit of INR68bn in FY10.
- ▶ **Coal mining is another driver, but long term.** The company has four coal blocks in India with mineable reserves of 5.1bn tons. Management expects these to commence production from FY12 onward and reach peak production of 110MT pa by FY18. AEL has an interest in Galilee Coal Tenement in Australia with reserves of 7.8bn tons; peak production of 60MT pa is expected by FY20 (commencing in FY14). AEL has also entered into an agreement with Bukit Asam, Indonesia to develop a 250km railway line in exchange for coal likely to be operational by FY14.

Consolidated financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	169,491	196,097	262,583	258,899	PE (x)	20.5	39.0	23.5	20.6
EBITDA	4,705	7,161	10,096	16,946	Dividend yield (%)	0.6%	0.2%	0.4%	0.3%
EBITDA margin	2.8%	3.7%	3.8%	6.5%	P/BV (x)	3.2	6.4	4.1	3.1
Net income	1,733	3,698	5,047	9,193					
EPS (INR)	3.7	7.1	10.5	18.2					

Source: Bloomberg, PE, Yield and P/BV are based on average price during the year

Engineers India, ENGR IN, Not Rated

Rahul Garg* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1245 rahul1garg@hsbc.co.in	Share price (INR)	289.45	Index Bloomberg	Bombay SE Sensitive Index ENGR IN
	Performance	1M	3M	12M
	Absolute	-12.1	-17.3	-20.3
	Relative (%)	-7.9	-12.3	-30.1
		Market cap (USDm)		2140

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- Engineers India Ltd (EIL) is primarily engaged in the business of providing design, engineering and related technical services for petroleum refineries and other industrial projects. Its key verticals are consultancy & engineering and lump sum turnkey projects (LSTK) for petrochemicals, pipelines, oil & gas (offshore as well as onshore), terminals & storage, mining & metallurgy and infrastructure. Project management services include project implementation and management consultancy. Over FY07-10, EIL revenue and net income grew at a CAGR of 56% and 45%, respectively.

Key points

- Market leader in the hydrocarbon space:** EIL is a market leader in the petrochemical EPC area, with strong technical and execution capability to offer integrated services from concept to commissioning for the hydrocarbon value chain. Its client relationships should enable the group to continue to grow above the market in the medium term.
- Strong order book to drive revenue growth:** EIL currently has an order book of INR62.4bn, which provides sales visibility of over three years. Orders are expected to continue to grow in FY11 and sales visibility increase further.
- Strong balance sheet to fund growth:** Unlike other EPC players, EIL has a strong balance sheet and is in a net cash position of cINR53/share. Its balance sheet strength is supported by EIL's presence in the consulting & engineering business, which contributes over 50% of total sales.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	5282	7536	15529	20140	PE (x)	67.2	49.2	27.8	22.4
EBITDA	1143	1815	3284	5057	Dividend yield (%)	1.1	0.6	0.5	0.3
EBITDA margin	21.6	24.1	21.1	25.1	P/BV (x)	8.45	6.91	8.26	9.22
Net income	1451	1980	3511	4405					
EPS (INR)	4.31	5.88	10.42	12.93					

Source: Bloomberg

EROS Int'l, EROS IN, Not Rated

Rajiv Sharma* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1239 rajivsharma@hsbc.co.in	Share price (INR)	158.35			Index Bloomberg	Bombay SE Sensitive Index EROS IN
	Performance	1M	3M	12M	Market cap (USDm)	321.65
	Absolute	-0.51	17.68			
	Relative (%)	-6.33	16.53			

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Eros is a media and entertainment company and is engaged in the distribution and production of Indian films and related content across cinema, digital, home entertainment and television syndication.
- ▶ The company operates in three segments: theatrical, television syndication and digital and home entertainment.
- ▶ Eros operates in more than 50 countries with offices in India, the UK, the US, the UAE, Australia, Fiji, and Isle of Man.

Key points

- ▶ The company hopes to consolidate its market leadership position within the filmed entertainment arena and expand within the rapidly growing Indian media sector by monetizing its scale, balance sheet and distribution network.
- ▶ It has an extensive library of over 2,000 film titles which allows for recurring cash flows and de-risks the business model. Further the company has a slate of regional films via its 51% subsidiary, Ayngaran.
- ▶ The company has planned capex of INR10bn over the next 18-24 months for developing entertainment content, with a focus on mainstream Hindi films. It has also started making content 3G compatible as it sees 3G as the next growth driver.
- ▶ In October 2010, the company has signed a multi-film content licensing deal worth USD14m for exclusive broadcasting of certain Eros movies across Zee Entertainment's television network.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	2,179	4,747	6,265	6,408	PE (x)	126.88	40.97	22.98	20.47
EBITDA	918	2,659	3,200	3,096	Dividend yield (%)	0	0	0	0
EBITDA margin	42%	56%	51%	48%	P/BV (x)	NA	NA	NA	33.26
Net income	132	411	733	822					
EPS (INR)	1.86	5.76	10.27	11.53					

Source: Bloomberg

Essar Oil, ESOIL IN, Not Rated

Kumar Manish* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 22681238 kmanish@hsbc.co.in	Share price (INR)	128.25			Index Bloomberg	Bombay SE Sensitive Index ESOIL IN
	Performance	1M	3M	12M	Market cap (USDm)	3,892
	Absolute	-6.0	-14.1	-9.9		
	Relative (%)	-1.4	-9.1	-23.5		

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Essar Oil has a 14 MTPA refinery at Vadinar in Gujarat, which started commercial production on 1 May 2008. It uses state-of-the-art technology and has the capability to produce petrol and diesel suitable for use in India as well as advanced international markets. Its current marketing network comprises 1,376 retail outlets.
- ▶ It has a presence in the Exploration and Production business as well. 2C contingent resources are 148 mmboe (million barrels of oil equivalent), and best estimate prospective resources are 1,012 mmboe. Its portfolio comprises Coal Bed Methane (CBM) acreage which is under production.

Key points

- ▶ Essar is expanding capacity from the current 14m tonnes to 18m tonnes, which will be further expanded to 20m tonnes. Its complexity is also set to improve from 6.1 to 11.8. Overall progress of the project is 78%.
- ▶ It started production of CBM — currently 10 wells are producing and 10 wells are under dewatering and production. Actual production is 18000scmd.
- ▶ There are plans to open another phase of the refinery with 18m tonnes capacity. However, financial closure is pending.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	4,739	5,622	375,164	365,046	PE (x)	-	-	-	177
EBITDA	-543	-525	17,182	3,818	Dividend yield (%)	-	-	-	-
EBITDA margin	-11%	-9%	5%	1%	P/BV (x)	1.97	6.57	2.4	3.53
Net income	-675	-412	-4,828	321					
EPS (INR)	-0.61	-0.36	-4.05	0.27					

Source: Bloomberg

Federal Bank, FB IN, Not Rated

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	379			Index Bloomberg	Bombay SE Sensitive Index FB IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M	Market cap (USDm)	1,416
	Absolute	-3.9	-20.8	39.9		
	Relative (%)	0.8	-16.6	23.2		

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Federal Bank (FBL) was incorporated in 1931. The bank offers a wide range of financial services, including merchant banking, international banking and foreign exchange, leasing facilities, money markets and agricultural advances. It also provides lending for high-tech agricultural and government sponsored schemes. The bank has c1% share of system loans and deposits.
- ▶ The bank operates through 719 branches and has 761 ATMs, as of September 2010. It has an Overseas Representative Office in Abu Dhabi, UAE. FBL plans to open around 75 more branches and ATMs during FY11 (as per its 2QFY11 results press release).
- ▶ During FY07, the bank entered into a joint venture agreement with IDBI Ltd and Fortis Insurance International to incorporate a life insurance company under the name of IDBI Fortis Life Insurance Co Ltd.

Key points

- ▶ Net interest margin increased by a significant 74bp to 4.44% in 2QFY11 from 3.70% in 2QFY10, primarily driven by a reduction in cost of deposits from 6.83% in 2QFY10 to 5.88% in 2QFY11. This drove a 39% jump in net income to INR1,404m from INR1,010m a year earlier.
- ▶ CASA ratio improved 4% to 29% in 2QFY11 from 25% in 2QFY10 with loan book growing 3.3% y-t-d to INR285,350m in 2QFY11 from INR276,340m in FY10.
- ▶ Asset quality deteriorated with gross NPA ratio worsening to 3.84% in 2QFY11 from 2.99% in 2QFY10. However, the bank has provision coverage of 82.19% (2QFY11), well above the regulatory limit of 70%.
- ▶ The capital adequacy ratio, at 17.23% in FY10, is well above the prescribed limit of 12%.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	10,191	12,628	18,312	20,395	PE (x)	11.31	18.19	13.34	14.40
EBITDA	-	-	-	-	Dividend yield (%)	1.06	1.06	1.32	1.32
EBITDA margin	-	-	-	-	P/BV (x)	2.17	1.65	1.50	1.38
Net income	2,927	3,681	5,005	4,646					
EPS (INR)									

Source: Bloomberg

Financial Tech, FTECH IN, Not Rated

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Share price (INR)	723			Index Bloomberg	Bombay SE Sensitive Index FTECH IN
Atul Agrawal* Associate Bangalore	Performance	1M	3M	12M	Market cap (USDm)	741
	Absolute	-18.1	-36.2	-53.6		
	Relative (%)	-16.1	-30.1	-65.7		

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ FT started as a brokerage software provider and has grown to become an exchange conglomerate over the years.
- ▶ The company started key exchanges in India, such as MCX (Multi-commodity Exchange) and MCX-SX, and is a key player in the commodity and currency exchange market in India through these exchanges.
- ▶ FT also intends to start equity and debt exchange on MCX-SX in due course.
- ▶ The company also has exchanges in Dubai, Singapore and other emerging markets.
- ▶ To capture the entire value chain, FT also has spot exchange and bulk handling facilities in India.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	2566	2669	2148	1985	PE (x)	112.1	8.2	11.5	51.4
EBITDA	995	194	-498	-1318	Dividend yield (%)	0.42	1.35	1.94	0.51
EBITDA margin	38.8%	7.3%	-23.2%	-66.4%	P/BV (x)	25.7	4.8	1.6	4.2
Net income	714	8694	2456.6	1401					
EPS (INR)	16.1	192.3	53.4	30.2					

Source: Bloomberg

Glenmark Pharma, GNP IN, Not Rated

Girish Bakhru* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 22681638 girishbakhru@hsbc.co.in	Share price (INR)	331			Index Bloomberg	Bombay SE Sensitive Index GNP IN
	Performance	1M	3M	12M	Market cap (USDm)	1,952
	Absolute	-7.1	3.8	28.9		
	Relative (%)	-2.7	10.1	12.9		

Note: Price at close of 24 January 2011. Source: Company data
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Business description

- ▶ Glenmark is a research driven, global, integrated pharmaceutical company with a strong presence in both generic and specialty products.
- ▶ The generics segment is c40% of overall sales and is largely focused on the US. The company has over 60 generic products authorized for distribution in the US and more than 40 applications pending approval.
- ▶ The specialty segment consists of sales from India, Latin America, Europe and semi-regulated markets (SRM).

Key points

- ▶ Over the last few years Glenmark has actively developed a niche generic pipeline in the US. The company has successfully challenged a few patents and has four sole first-to-file opportunities, including Tarka, Zetia, Cutivate and Malarone.
- ▶ In India, Glenmark is ranked among the top-25 pharmaceutical companies with recent growth outpacing the industry.
- ▶ The company has a significant presence in formulations in other markets including SRMs, the EU (large focus in CEE countries) and Latin America. The formulation business has five manufacturing facilities: three in India and two overseas.
- ▶ Its drug discovery business has a pipeline of six NCE and NBE molecules. In addition, the company has two in-licensed molecules – Crofelemer and one novel monoclonal antibody. Crofelemer is indicated for HIV associated diarrhoea and is in Phase III trial.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	10,499	16,937	20,820	25,121	PE (x)	14.0	13.7	44.9	26.2
EBITDA	2,951	5,927	4,834	6,468	Dividend yield (%)	0.1	0.1	0.1	0.1
EBITDA margin	28.1%	35.0%	23.2%	25.7%	P/BV (x)	6.3	5.7	5.4	3.7
Net income	3,100	6,321	1,933	3,310					
EPS (INR)	23.2	23.7	7.2	12.4					

Source: Bloomberg

Glodyne Technoserve, GLOT IN, Not Rated

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Share price (INR)	728			Index Bloomberg	Bombay SE Sensitive Index GLOT IN
Atul Agrawal* Associate Bangalore	Performance	1M	3M	12M	Market cap (USDm)	388
	Absolute	0.5	-37.1	36.8		
	Relative (%)	-3.4	-31.7	24.2		

Note: Price at close of 24 January 2011. Source: Company data
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Business description

- ▶ Glodyne Technoserve (GLOT) is a leading IT services company, headquartered in Mumbai, with presence across India and the US.
- ▶ It offers technology-led business solutions across two SBUs, i.e. Technology Infrastructure Management Services (Technology IMS) and Application Software Services.

Key points

- ▶ Due to its headstart of over 2-2.5 years through the BIHAR e-shakti project (when financial inclusion and Unique Identification Numbers, or UID, were not even concepts in the country), GLOT has a huge early mover advantage.
- ▶ There are three parts to the story, first the NREGS scheme which distributes USD10bn pa to the poor in the country; of this, currently over 70-80% is handled manually and results in huge losses through pilfering. This needs to be automated to manage payouts for the states (funded by the central government).
- ▶ Second, as part of this, UID is also needed and a lot of opportunity emerges around that. (GoI is inaugurating the first UID-enabled village. Third, all these beneficiaries are then required to be brought into the banking system – this is the financial inclusion part – and they can sell services to the banks. Note that the NREGS/UID contracts are for 5-6 years but the banking (FI) contracts are for 10 years and mostly 6-8 times bigger in value. We estimate a combined (NREGS + FI) contract value per state of INR20-25bn or more. Only 2-3 states have carried out some initiatives here and the story is just beginning.
- ▶ On balance, there is visibility for at least 50%+ top line growth to continue from the domestic story, with some margin improvement and EBITDA margin improvement at Decision One, too.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	1678	3078	5010	7492	PE (x)	4.9	12.1	3.4	18.4
EBITDA	246	526	957	1574	Dividend yield (%)	1.1	0.3	0.5	0.3
EBITDA margin	14.7	17.1	19.1	21.0	P/BV (x)	2.1	5.6	1.6	5.6
Net income	200	406	778	1000					
EPS (INR)	8	17.6	33.8	38.6					

Source: Bloomberg

Godrej Industries, GDSP IN, Not Rated

Rajesh Singla* Analyst HSBC Bank plc +91 80 3001 3771 rajeshsingla@hsbc.co.in	Share price (INR) 186.25	Index Bloomberg	Bombay SE Sensitive Index GDSP IN
Performance	1M	3M	12M
Absolute	-5.1	-14.8	23.8
Relative (%)	3.9	-11.3	5.3
	Market cap (USDm)		1,291

Note: Price at close of 24 January 2011. Source: Company data
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Business description

- ▶ Godrej Industries Ltd (GIL) is an industrial conglomerate with presence in various sectors such as FMCG, real estate, chemicals and agri-products. GIL's core business comprises production and marketing of oleo-chemicals, bulk edible oils, estate management and investment activities. Further, GIL has 69.4%, 23.4% and 75.2% stakes in Godrej Properties (GPL), Godrej Consumer Products (GCP) and Godrej Agrovet (GAVL), respectively. During FY07-10, GIL's revenue and net income grew at a CAGR of 15% and 51%, respectively.

Key points

- ▶ **Chemicals (21% revenue, 11% EBIT):** The chemical business is being helped by the strong run-up in commodity prices from July 2010 onward. The specialty chemicals business registered double-digit growth during FY10.
- ▶ **Properties (13% revenue, 49% EBIT):** GPL has 82m sq ft area under development. In addition, GIL owns an 81.6% effective stake in Vikhroli, a Mumbai suburb land development covering 2.8m sq ft, which is expected to be completed by 2017.
- ▶ **Agri business (46% revenue, 8% EBIT):** GIL's agri business consists of animal feed milling, oil palm plantation, poultry and agri-input business. GAVL has a mission to improve productivity of Indian farmers by innovating products and services to increase crop and live stock yields.
- ▶ **FMCG:** GIL's FMCG portfolio has 15 leading brands. Recently it forayed into the international markets by forming joint ventures with Hershey Netherlands BV and Tyson Foods, in a bid to make it a leading emerging market FMCG company.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	23,790	29,477	34,934	36,597	PE (x)	62.8	42.1	39.3	24.2
EBITDA	917	2,000	2,292	2,913	Dividend yield (%)	0.8%	0.5%	0.9%	1.0%
EBITDA margin	3.9%	6.8%	6.6%	8.0%	P/BV (x)	7.8	5.2	3.1	2.8
Net income	582	1,678	1,123	2,032					
EPS (INR)	2.02	5.56	3.49	6.39					

Source: Bloomberg, PE, Yield and P/BV are based on average price during the year.

GRUH Finance, GRHF IN, Not Rated

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	396			Index Bloomberg	Bombay SE Sensitive Index GRHF IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M	Market cap (USDm)	307
	Absolute	0.9	(3.9)	90.6		
	Relative (%)	5.8	1.2	67.8		

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ GRUH Finance was incorporated in 1986 to provide financial services mainly for rural housing, construction/upgrade of housing units, and to developers. GRUH has been awarded the Certificate of Registration from NHB to carry out housing finance business in India and also to accept retail deposits from the public.
- ▶ GRUH is primarily engaged in the business of providing loan term finance to individuals for Construction/Purchase/ Extension/ Repair/Renovation/Shop Loans of their homes. It also provides loans to professionals for office premises. It has a network of 80 retail offices spread across Gujarat, Maharashtra, Rajasthan, MP, Karnataka, Chhattisgarh and TN.
- ▶ GRUH is a subsidiary of HDFC Ltd, holding 61% of GRUH as of September 2010.

Key points

- ▶ Net income grew to INR175.4m in 3QFY11 from INR155.2m in 3QFY10 driven by higher net interest income.
- ▶ Asset quality has been improving with gross non-performing assets (NPA) declining to 1.23% in 3QFY11 from 1.84% in 3QFY10. NPAs are fully provided for; hence GRUH's net NPLs are nil.
- ▶ Loans grew 28% to INR29,363m in 3QFY11. The states of Gujarat, Maharashtra and Madhya Pradesh contributed more than 80% of the loan book.
- ▶ The capital adequacy ratio, at 16.55% in FY10, is well above the prescribed limit of 12%.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	1,385	1,944	2,869	2,980	PE (x)	49.13	34.23	28.85	21.03
EBITDA	na	na	na	na	Dividend yield (%)	0.76	1.01	1.22	1.65
EBITDA margin	na	na	na	na	P/BV (x)	8.33	7.19	6.20	5.18
Net income	296	423	503	690					
EPS (INR)	8.04	11.54	13.69	18.78					

Source: Bloomberg

HDFC Standard Life, Not Listed

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	na				Index Bloomberg	na na
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M		Market cap (USDm)	na
	Absolute	na	na	na			
	Relative (%)	na	na	na			

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ HDFC Standard Life is a joint venture between HDFC (72.43%) and Standard Life plc (26%), the leading provider of financial services in the UK. It was founded in 2000 and offers a range of individual and group insurance solutions. Its product portfolio comprises solutions that meet various customer needs such as protection, pension, savings, investment and health.
- ▶ HDFC Standard Life has one of the widest reaches among new insurance companies with 568 branches in over 700 cities and towns. The company has a strong presence in its existing markets with 200,000 financial consultants.

Key points

- ▶ HDFC Standard Life saw total premiums grow 37.4% in 1HFY11 with renewal premiums contributing 54% of the total premium. It reported new business growth of 58.5% in 1HFY11 vs. 13.5% achieved on average in the private sector.
- ▶ Commission expense as a percentage of total premiums declined sharply to 6.2% in 1HFY11 from 8.6% in 1HFY10. This decline was primarily due to a drop in first year premiums to 11.7% in 1HFY11 from 16.0% in 1HFY10.
- ▶ After taking actions to improve operating efficiency and channel productivity, the operating expense ratio improved to 20.2% from 24.9% in 1HFY10.
- ▶ As of 2QFY11 it had a solvency ratio of 192% against a regulatory requirement of 150%.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	32,166	57,337	44,457	130,647	PE (x)	na	na	na	na
EBITDA	na	na	na	na	Dividend yield (%)	na	na	na	na
EBITDA margin	na	na	na	na	P/BV (x)	na	na	na	na
Net income	(1,256)	(2,435)	(5,030)	(2,752)					
EPS (INR)	(1.83)	(2.42)	(3.28)	(1.51)					

Source: Bloomberg

Indian Hotels, IH IN, Not Rated

Percy Panthaki* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1240 percypanthaki@hsbc.co.in	Share price (INR)	98.4			Index Bloomberg	Bombay SE Sensitive Index IH IN
	Performance	1M	3M	12M	Market cap (USDm)	1624
	Absolute	4.1	-0.9	-5.7		
	Relative (%)	9.1	5.1	-10.8		

Note: Price at close of 24 January 2011. Source: Company data
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Business description

- Indian Hotels Co Ltd (IHCL) and its subsidiaries, collectively known as Taj Resorts and Palaces, operates four distinct brands of hotels: 1) Taj which is a luxury brand; 2) Vivanta which caters to the upper upscale segment; 3) Gateway, in the upscale segment; and 4) Ginger, in the economy segment. Earlier, IHCL operated all of its hotels under the Taj brand; however the company now aims to increase utility to consumers by offering a unique brand experience in each segment. Overall, the company has 20-25% market share in India with nearly 60 hotels in 45 locations. It also has 15 international hotel properties in the UK, US, Australia, Malaysia, Bhutan, Sri Lanka, Africa and the Middle East.

Key points

- Room occupancies should remain strong in the coming months as India is one of the hosts of the 2011 ICC Cricket World Cup.
- IHCL's brands cater to wide segments of the hotel industry and it has strong room inventory.
- IHCL is showing improving business fundamentals on its international properties.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	25062	29200	26001	24567	PE (x)	23.8	20.7	225.9	NA
EBITDA	7136	8934	5586	3982	Dividend yield (%)	1.1	1.7	3.1	1.0
EBITDA margin (%)	28.5	30.6	21.5	16.2	P/BV (x)	4.1	3.0	0.9	2.9
Net income	3703	3550	125	-1369					
EPS (INR)	5.66	5.43	0.17	-1.89					

Source: Bloomberg

Infinite, ICSL IN, Not Rated

Yogesh Aggarwal* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1246 yogeshaggarwal@hsbc.co.in	Share price (INR)	191				Index Bloomberg	Bombay SE Sensitive Index ICSL IN
Atul Agrawal* Associate Bangalore	Performance	1M	3M	12M		Market cap (USDm)	187
	Absolute	11.7	16.4	-6.2			
	Relative (%)	5.6	10.5	-24.2			

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Infinite is a mid-cap IT company in India, with clients including Verizon, Fujitsu and IBM.
- ▶ The company derives c60% of its revenues from the telecom vertical and counts Motorola and Alcatel among its clientele.
- ▶ Infinite derives over USD50m business from Verizon annually and is one of the prime offshoring vendors for Verizon globally.
- ▶ A deal with Motorola (messaging platform) provides strong non-linearity in Infinite's revenues.
- ▶ A large share of Infinite's workforce is based in North America (unlike peers that have c25% of their workforce onsite), providing a natural hedge to currency and better proximity to clients.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	3489	3415	4959	6662	PE (x)	70.9	41.2	16.1	9.4
EBITDA	151	250	581	1150	Dividend yield (%)	0	0	0	0
EBITDA margin	4.3%	7.4%	11.9%	17.3%	P/BV (x)	7.4	6.4	4.7	2.3
Net income	100	175	450	792					
EPS (INR)	2.7	4.6	11.8	20.2					

Source: Bloomberg

IDFC Ltd, IDFC IN, Not Rated

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	158			Index Bloomberg	Bombay SE Sensitive Index IDFC IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M	Market cap (USDm)	5,166
	Absolute	-9.8	-21.1	4.9		
	Relative (%)	-5.5	-17.0	-7.7		

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ Infrastructure Development Finance Co Ltd (IDFC) offers infrastructure project financing services. The company primarily finances energy, telecoms, and transportation projects. It commenced business in 1997 and went public in August 2005.
- ▶ IDFC's businesses, directly and through its subsidiaries, includes project finance, principal investments, asset management (for third party funds), investment banking, institutional broking (through IDFC-SSKI) and advisory services. IDFC also works closely with the Government of India and the state governments on conceptualizing and formulating policies that would be conducive for private sector participation in the infrastructure sector.

Key points

- ▶ In 2QFY11, IDFC's NII grew 37% y-o-y and PAT 19% y-o-y, on the back of loan growth of 58% y-o-y and 19% q-o-q. However, this growth could slow, as the company attempts to sell some of its loan assets in the market and earn syndication fees.
- ▶ NIM has contracted q-o-q, given the rising cost of wholesale funds. Margins are expected to normalize from 4Q10 levels.
- ▶ IDFC maintained its asset quality, with gross NPA at 0.23% (vs. 0.35% y-o-y) and net NPA at a low of 0.12% (vs. 0.2% y-o-y). Also, no new NPAs were added during 1HFY11.
- ▶ IDFC has a CAR of 24.7% (vs. 21.7% y-o-y), boosted by a QIP and Preferential Offer in July-August 2010. In addition to this, measures such as entitlement to issue tax-free infra bonds and IFC status should mitigate balance sheet constraints.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	6,854	10,769	12,501	16,469	PE (x)	40.20	31.87	28.64	20.79
EBITDA	na	na	na	na	Dividend yield (%)	0.63	0.76	0.76	0.95
EBITDA margin	na	na	na	na	P/BV (x)	6.19	3.76	3.40	3.02
Net income	4,629	6,692	7,359	10,128					
EPS (INR)	3.94	4.97	5.53	7.62					

Source: Bloomberg

LIC Housing Finance, LICHF IN, Not Rated

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	190			Index Bloomberg	Bombay SE Sensitive Index LICHF IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M	Market cap (USDm)	2,001
	Absolute	0.9	-30.0	19.0		
	Relative (%)	5.8	-26.2	4.8		

Note: Price at close of 24 January 2011. Source: Company data
*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations

Business description

- ▶ LICHF is one of the largest housing finance company in India which provides long term finance to individuals for purchase / construction / renovation of new / existing homes. The company was promoted by LIC in June 1989 and was listed in 1994. It has a wide network of 205 offices across the country and representative offices at Dubai & Kuwait. In addition, the Company also distributes its products through 33 branches of its subsidiary LICHFL Financial Services Ltd.
- ▶ It formed three new wholly owned subsidiaries in 2007-08 to manage its interests in financial services, venture fund and asset management. LICHF is keen to make foray into the banking sector and plans to obtain the necessary approvals, once the RBI guidelines are in place.

Key points

- ▶ LICHF has seen its loan book grow at a 25.5% CAGR over FY05-10, along with stable spreads (1.7-1.8%) and consistent improvement in asset quality.
- ▶ In 3QFY11 PAT grew 39% yoy to INR2.14bn, buoyed by 55% growth in net interest income. Management made full provisions to the tune of INR2.35bn through the P&L on account of higher provisioning related to new NHB guidelines, barring which PAT would have seen higher growth.
- ▶ Sanctions and disbursals during the quarter grew 28%, driven by individual loans, which registered 90% growth and 41% growth in sanctions and disbursals. As an aftermath of a bribery scam, contraction in the developer loans portfolio was evident, down 72% and 32.5% y-o-y in sanctions and disbursements.
- ▶ NIM improved to 3.14% vs. 2.93% q-o-q. Asset quality continued to improve, with gross NPA ratio falling to 0.67% from 1.44% a year ago, while net NPA ratio fell to 0.18% from 0.77% y-o-y.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	4,893	7,058	8,955	11,044	PE (x)	6.00	4.33	3.15	2.83
EBITDA	na	na	na	na	Dividend yield (%)	4.21	5.27	6.85	7.90
EBITDA margin	na	na	na	na	P/BV (x)	1.05	0.88	0.72	0.53
Net income	2,792	3,872	5,316	6,622					
EPS (INR)	31.63	43.85	60.34	67.16					

Source: Bloomberg

Magma Fincorp, MGMA IN, Not Rated

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	64.35			Index Bloomberg	Bombay SE Sensitive Index MGMA IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M	Market cap (USDm)	188
	Absolute	(8.7)	(14.7)	61.7		
	Relative (%)	(4.3)	(10.2)	42.3		

Note: Price at close of 24 January 2011. Source: Company data
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Business description

- ▶ Magma Fincorp was incorporated in 1978 and became public in 1970. It provides equipment and vehicle financing solutions to individuals and small businesses in India.
- ▶ The company offers a range of financial products and services, including commercial vehicle finance, construction equipment finance, car and utility vehicle finance, strategic construction equipment finance, tractor finance, small and medium enterprise loans, and insurance, as well as refinance products.
- ▶ The company is headquartered in Kolkata and has 170 branches spread across 21 states, with c80% of its branches located in rural/semi-urban markets.

Key points

- ▶ Net interest margins remained stable, notwithstanding a rise in the cost of funds to 8.7% from 7.9% a year earlier. The growing share of higher yield products (22% in 3QFY11 vs. 13% in 3QFY10), i.e., used commercial vehicles, tractors and SME, were the main driver.
- ▶ Net income rose to INR327m in 3QFY11 from INR179m in 3QFY10, up 82% y-o-y. The chief driver was a lower bad debt charge of INR69m against INR106m in the same period last year.
- ▶ Magma reported continued growth in disbursements, at 21% y-o-y in 3QFY11.
- ▶ Post a QIP issue in May 2010, the capital adequacy ratio increased to 19.2% in 3QFY11 from 14.9% in FY10. This is well above the regulatory requirement of 12%.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	1,964	3,009	3,405	3,873	PE (x)	4.34	3.69	4.43	2.39
EBITDA	na	na	na	na	Dividend yield (%)	3.11	3.11	1.55	3.11
EBITDA margin	na	na	na	na	P/BV (x)	0.55	0.53	0.48	0.40
Net income	314	505	390	665					
EPS (INR)	14.83	17.42	14.52	26.91					

Source: Bloomberg

Mahindra & Mahindra Financial, MMFS IN, Not Rated

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	696			Index Bloomberg	Bombay SE Sensitive Index MMFS IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M	Market cap (USDm)	1,477
	Absolute	-2.0	6.9	95.3		
	Relative (%)	2.7	12.5	71.9		

Note: Price at close of 24 January 2011. Source: Company data
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Business description

- ▶ MMFS is a subsidiary of Mahindra & Mahindra Ltd and was incorporated in 1991 and became public in 2006. It is one of India's leading non-bank finance companies (NBFC), providing finance for Utility Vehicles (UV), tractors and cars and mainly focuses on the rural and semi-urban sector.
- ▶ The company's product portfolio ranges from finance for two wheelers, tractors, farm equipment, cars and UVs to commercial vehicles and construction equipment. MMFS also provides investment advice, surveying available market products and choosing those products that are best suited to customers' needs.
- ▶ MMFS has the largest network of branches (537 currently) among its peers, covering 80% of the districts in India.

Key points

- ▶ Net income rose to INR1,159m in 3QFY11 from INR933m in 2QFY10 driven by higher net interest income.
- ▶ Asset quality has been steadily improving as its gross non-performing assets (NPA) to total assets ratio improved from 8.7% in December 2009 to 6.4% in 2QFY11 to 5.6% in 3QFY11. Also, net NPA improved from 2.3% in December 2009 to 1.1% in 3QFY11.
- ▶ Showing a strong credit offtake environment, loans and advances grew 45.6% y-o-y in 3QFY11 to INR114,820m, from INR78,855m in the same period last year.
- ▶ The capital adequacy ratio was 17.4% as of December 2010, well above the 12% limit prescribed by the Reserve Bank of India.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	7,225	10,799	12,446	13,827	PE (x)	46.78	39.60	32.83	20.48
EBITDA	na	na	na	na	Dividend yield (%)	0.57	0.64	0.78	1.06
EBITDA margin	na	na	na	na	P/BV (x)	7.61	5.11	4.59	3.91
Net income	1,329	1,770	2,145	3,427					
EPS (INR)	15.07	17.80	21.47	34.42					

Source: Bloomberg

UCO Bank, UCO IN, Not Rated

Sachin Sheth* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1224 sachinsheth@hsbc.co.in	Share price (INR)	874			Index Bloomberg	Bombay SE Sensitive Index UCO IN
Tejas Mehta* Analyst HSBC Securities and Capital Markets (India) Private Limited +91 22 2268 1243 tejasmehta@hsbc.co.in	Performance	1M	3M	12M	Market cap (USDm)	1,328
	Absolute	-4.7	-12.6	86.8		
	Relative (%)	-0.1	-8.0	64.4		

Note: Price at close of 24 January 2011. Source: Company data

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Business description

- ▶ UCO Bank is a public sector bank, having c2.5% share in system loans and deposits.
- ▶ The bank offers a host of value added banking solutions to customers, which includes international banking services, services for NRIs, loan schemes, deposit schemes and value added e-banking solutions.
- ▶ UCO bank's head office is in Kolkata and it has 34 regional offices spread all over India. The bank has international presence with four overseas branches in two important financial centers in Singapore and Hong Kong and representative offices in Kuala Lumpur, Malaysia and Guangzhou, China.

Key points

- ▶ UCO Bank has recently seen a change in top management with Mr Arun Kaul (earlier ED, Central Bank of India) now spear-heading the bank. The change is likely to be positive given Mr Kaul's rich banking experience and a long tenure at UCO Bank, lending stability to the top management.
- ▶ While loan book growth has been lagging the industry, improvement in NIMs has led to better core profitability. NIMs are now over 3% compared to an average of 2-2.2% over the past three years. Margin improvement was led by sharp improvement in cost of funds and capital infusion.
- ▶ However, asset quality concerns have risen with slippages increasing from 1.5% to 2.8% in 9MFY11. Stressed assets are still high at ~10% of loans. The bank has rapidly improved provisions coverage from 50% in FY10 to 66% in 9MFY11. Asset quality remains a variable to monitor in coming quarters.
- ▶ The Government of India infused capital of INR11,250m in CY10, thereby improving Tier I CAR to 7.5%.

Financials (INRm)

Year to Mar	2007	2008	2009	2010	Key ratios	2007	2008	2009	2010
Revenue	21,918	22,671	26,818	32,978	PE (x)	28.66	21.88	10.95	6.06
EBITDA	na	na	na	na	Dividend yield (%)	0.92	0.92	0.92	1.37
EBITDA margin	na	na	na	na	P/BV (x)	3.95	3.51	2.15	1.66
Net income	3,161	4,122	5,577	10,122					
EPS (INR)	3.81	4.99	9.97	18.03					

Source: Bloomberg

Notes

Disclosure appendix

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AXIS BANK LTD	AXBK.BO	1253.50	29-Jan-2011	1, 2, 4, 5, 7, 11
BANK OF BARODA	BOB.NS	843.45	28-Jan-2011	1, 5, 6, 7, 11
BANK OF INDIA	BOI.NS	460.55	28-Jan-2011	1, 4, 5, 6, 7, 11
BHARTI AIRTEL	BRTI.NS	325.65	28-Jan-2011	5, 6, 7
CANARA BANK	CNBK.BO	588.65	28-Jan-2011	2, 6, 7, 11
GAIL	-	-	-	6, 7
GRASIM INDUSTRIES	GRAS.NS	2355.60	28-Jan-2011	6
HCL TECHNOLOGIES	HCLT.NS	505.55	28-Jan-2011	4
HDFC	HDFC.NS	667.10	28-Jan-2011	6, 7
HDFC BANK	HDBK.NS	2050.90	28-Jan-2011	6, 7
HINDUSTAN CONSTRUCTION	HCNS.BO	39.65	28-Jan-2011	4
HINDUSTAN PETROLEUM	HPCL.BO	361.75	28-Jan-2011	7
HINDUSTAN UNILEVER LTD	HLL.NS	270.70	28-Jan-2011	4, 5
ICICI BANK	ICBK.NS	1014.35	28-Jan-2011	1, 2, 4, 5, 6, 7, 9, 11
INDUSIND BANK	INBK.BO	221.85	28-Jan-2011	4, 7
INFOSYS TECHNOLOGIES	INFY.NS	3196.90	28-Jan-2011	6
IRB INFRASTRUCTURE LTD	IRBI.BO	213.75	28-Jan-2011	4
ITC	ITC.BO	167.80	28-Jan-2011	4, 6
JET AIRWAYS	JET.NS	609.35	28-Jan-2011	7
JSW STEEL LTD	JSTL.BO	963.05	28-Jan-2011	4
LARSEN & TOUBRO	LART.BO	1645.35	28-Jan-2011	2, 6, 7
LUPIN	LUPN.NS	441.80	28-Jan-2011	4, 6
MARUTI SUZUKI INDIA LTD	MRTI.NS	1269.70	28-Jan-2011	4
NATIONAL ALUMINIUM CO LTD	NALU.BO	390.65	28-Jan-2011	1, 5, 11
NIIT	NIIT.BO	56.20	28-Jan-2011	2, 5
OIL INDIA LIMITED	OILI.BO	1262.25	28-Jan-2011	1, 4, 5, 7
PERSISTENT SYSTEMS LTD	PERS.BO	407.45	28-Jan-2011	4
RELIANCE COMMUNICATIONS	RLCM.NS	127.70	28-Jan-2011	2, 5, 7
RELIANCE INDUSTRIES	RELI.BO	942.70	28-Jan-2011	1, 5, 6, 7, 11
SIMPLEX INFRASTRUCTURE	SINF.BO	348.65	28-Jan-2011	4
STATE BANK OF INDIA	SBI.NS	2653.50	28-Jan-2011	1, 2, 4, 5, 6, 7, 11
SUN PHARMA	SUN.NS	461.45	28-Jan-2011	4
WIPRO	WIPR.BO	438.65	28-Jan-2011	2, 6, 7
YES BANK	YESB.BO	264.90	28-Jan-2011	4, 7

Source: HSBC

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